Public Joint Stock Company
"Southern Telecommunications Company"

Consolidated Financial Statements

For the year ended December 31, 2006
with Independent Auditor's Report

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“Southern Telecommunications Company”

Consolidated Financial Statements

For the Year Ended December 31, 2006

Contents

Ernst & Young

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Independent Auditors' Report

To the Shareholders and Board of Directors of
Public Joint Stock Company "Southern Telecommunications Company"

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

ERNST & YOUNG

Basis for Qualified Opinion

As described in Note 2 "Basis of Presentation of the Financial Statements", the Group transitioned to International Financial Reporting Standards (IFRS) at January 1, 2003 and applied an exemption in IFRS 1, "First-time Adoption of International Financial Reporting Standards", which permits an entity to measure property, plant and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost. However, we were not able to satisfy ourselves as to whether the carrying amounts of property, plant and equipment as at January 1, 2003 were representative of fair value. Accordingly, we were unable to determine whether the carrying value of property, plant and equipment as of December 31, 2006 and 2005 complies with the requirements of IFRS. Further, we were unable to satisfy ourselves as to the related (i) depreciation expense for the years then ended and (ii) the deferred tax balances as at December 31, 2006 and 2005 and deferred tax expense for the years then ended.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2006, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 33 to the consolidated financial statements which describes the uncertainties related to bringing the contracts with interconnected operators into compliance with the industry legislation effective January 1, 2006 and to the completion of respective settlements with interconnected operators and their possible effects on the consolidated financial statements of the Group. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result with regard to these matters has been made in the Group's consolidated financial statements.

Ernst & Young LLC

June 27, 2007

PJSC “Southern Telecommunications Company”

Consolidated Balance Sheet at December 31, 2006

(Amounts in thousands of Rubles unless stated otherwise)

	Notes	2006	2005 as restated
ASSETS			
Non-current assets			
Property, plant and equipment	5	**32,095,238**	33,081,215
Intangible assets and goodwill	6	**1,855,456**	1,637,489
Investments accounted for using the equity method	9	**529,576**	564,452
Long–term investments	10	**15,221**	19,832
Long-term accounts receivable and other assets	11	**204,042**	495,064
Long-term advances given	12	**156,259**	212,288
Deferred tax asset	30	**7,224**	8,342
Total non-current assets		**34,863,016**	36,018,682
Current assets			
Inventories	13	**778,379**	860,130
Trade and other receivables	14	**702,343**	755,722
Prepaid income tax	15	**282,571**	131,228
Other current assets	16	**845,034**	1,157,195
Cash and cash equivalents	17	**331,126**	772,082
Total current assets		**2,939,453**	3,676,357
Assets of disposal group classified as held for sale	8	**38,678**	–
TOTAL ASSETS		**37,841,147**	39,695,039
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	19	**3,039,255**	3,039,255
Unrealized gain on available-for-sale investments		**–**	5,395
Retained earnings		**7,019,926**	6,730,427
Total equity attributable to equity holders of the parent		**10,059,181**	9,775,077
Minority interest		**8,524**	12,068
Total equity		**10,067,705**	9,787,145
Non-current liabilities			
Long-term borrowings	20	**6,331,361**	8,454,716
Long–term finance lease obligations	21	**1,229,449**	2,034,909
Pension liabilities	24	**1,282,965**	868,052
Deferred revenue		**359,385**	477,695
Deferred income tax liability	30	**927,810**	727,398
Long-term provision	25	**17,534**	36,594
Other non-current liabilities		**42**	–
Total non-current liabilities		**10,148,546**	12,599,364
Current liabilities			
Accounts payable, accrued expenses and advances received	22	**3,198,164**	3,179,511
Payables to OJSC “Rostelecom”	34	**145,444**	134,906
Income tax payable		**4,884**	375
Other taxes payable	23	**385,507**	581,404
Dividends payable		**29,167**	30,067
Short–term borrowings	20	**1,181,397**	2,166,678
Current portion of long–term borrowings	20	**11,679,953**	10,202,076
Current portion of long–term finance lease obligations	21	**811,613**	993,973
Short-term provisions	25	**180,985**	19,540
Total current liabilities		**17,617,114**	17,308,530
Liabilities directly associated with the assets classified as held for sale	8	**7,782**	–
Total liabilities		**27,773,442**	29,907,894
TOTAL EQUITY AND LIABILITIES		**37,841,147**	39,695,039

General Director______________ Andreev A.V. *Chief Accountant _____________Rusinova T.V*

The accompanying notes form an integral part of these consolidated financial statements

PJSC “Southern Telecommunications Company”

Consolidated Income Statement

For the Year Ended December 31, 2006

(Amounts in thousands of Rubles unless stated otherwise)

	Notes	2006	2005 as restated
Continuing operations:			
Revenue	**26**	**17,959,063**	18,764,291
Wages, salaries, other benefits and payroll taxes		**(6,105,038)**	(6,006,300)
Depreciation and amortization	**5, 6**	**(3,324,742)**	(3,163,899)
Materials, repairs and maintenance, utilities		**(2,274,579)**	(2,037,419)
Taxes other than income tax		**(775,105)**	(748,531)
Interconnection charges		**(1,060,890)**	(2,622,215)
Recovery of (provision for) impairment of receivables	**14**	**400,451**	(294,183)
Loss on disposal of property, plant and equipment		**(3,708)**	(167,372)
Other operating expenses	**27**	**(1,899,828)**	(2,076,760)
Operating profit		**2,915,624**	1,647,612
Share of results of investments accounted for using the equity method		**95,510**	111,840
Interest expense	**28**	**(2,293,168)**	(2,866,329)
Gain (loss) on investments	**29**	**13,046**	(29,646)
Foreign exchange gain		**59,364**	133,475
Profit (loss) before income tax		**790,376**	(1,003,048)
Income tax expense	**30**	**(429,745)**	63,543
Profit (loss) for the year from continuing operations		**360,631**	(939,505)
Discontinued operations:			
Loss after tax for the year from discontinued operations	**8**	**(13,632)**	(10,237)
Profit (loss) for the year		**346,999**	(949,742)
Attributable to:			
Equity holders of the parent		**350,543**	(945,835)
Minority interests		**(3,544)**	(3,907)
		346,999	(949,742)
Earnings/(loss) per share (in Russian Rubles) - basic and diluted, for profit/(loss) for the year attributable to equity holders of the parent	**31**	**0.09**	(0.24)

General Director______________ Andreev A.V.   *Chief Accountant _____________ Rusinova T.V*

The accompanying notes form an integral part of these consolidated financial statements

PJSC "Southern Telecommunications Company"

Consolidated Cash Flow Statement

For the Year Ended December 31, 2006

(Amounts in thousands of Rubles unless stated otherwise)

	Note	2006	2005 as restated
Cash flows from operating activities:			
Profit (loss) before income tax from continuing operations		**790,376**	(1,003,048)
Loss before tax from discontinued operations	**8**	**(15,715)**	(13,065)
Adjustments for:			
Foreign exchange gain		**(59,364)**	(133,475)
Depreciation of property, plant and equipment, amortization of intangible assets	**5, 6**	**3,335,882**	3,175,895
Loss on disposal of property, plant, equipment		**3,708**	167,372
Share of result of investments accounted for using the equity method		**(95,510)**	(111,840)
Loss (gain) on investments	**29**	**(13,046)**	29,646
Interest expense	**28**	**2,293,168**	2,866,329
Loss from goodwill impairment	**6**	**6,350**	–
Provision for (recovery of) impairment of receivables	**14**	**(400,451)**	294,183
Provision for tax fines and penalties and other claims	**25, 27**	**161,925**	–
Provision for (recovery of) impairment of inventory	**13**	**9,976**	(749)
Movement in pension obligations	**24**	**414,913**	138,481
Operating cash flows before working capital changes		**6,432,212**	5,409,729
Decrease in trade and other receivables		**473,471**	41,440
Decrease in other current assets		**507,084**	449,187
Decrease in inventories		**67,852**	168,798
Increase in accounts payable, accrued expenses and advances received		**406,378**	408,335
Increase (decrease) in taxes payable		**(195,665)**	59,657
Cash generated from operations		**7,691,332**	6,537,146
Interest paid		**(2,716,672)**	(2,857,988)
Income tax paid		**(372,057)**	(97,028)
Net cash from operating activities		**4,602,603**	3,582,130
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(2,379,481)**	(2,151,452)
Purchase of intangible assets		**(44,508)**	(32,313)
Purchase of Oracle EBS and installation services		**(65,638)**	(179,785)
Purchase of Amdocs Billing Suite and installation services		**(155,522)**	(458,441)
Acquisition of subsidiary net of cash acquired		**-**	(26,003)
Proceeds from sale of investments and assets		**9,936**	39,698
Purchase of investments and assets		**-**	(12,553)
Proceeds from the sale of property, plant and equipment		**80,835**	77,774
Interest received		**7,016**	13,126
Dividends received		**96,647**	74,029
Net cash used in investing activities		**(2,450,715)**	(2,655,920)
Cash flows from financing activities:			
Proceeds from borrowings		**8,560,924**	6,203,161
Repayment of borrowings		**(8,191,972)**	(9,022,777)
Proceeds from the issue of bonds		**–**	6,092,657
Repayment of bonds		**(2,000,000)**	(1,092,657)
Finance lease obligation repayment		**(1,011,466)**	(1,355,630)
Vendor financing repayment		**(165,786)**	(305,528)
Proceeds from promissory notes		**2,141,000**	1,109,819
Repayment of promissory notes		**(1,863,600)**	(2,157,054)
Proceeds from other non-current liabilities		**–**	12,123
Dividends paid to equity holders of the parent		**(61,944)**	(101,340)
Net cash used in financing activities		**(2,592,844)**	(617,226)
Net increase (decrease) in cash and cash equivalents		**(440,956)**	308,984
Cash and cash equivalents at the beginning of the year		**772,082**	463,098
Cash and cash equivalents at the end of the year		**331,126**	772,082

General Director______________ Andreev A.V. Chief Accountant _____________Rusinova T.V

The accompanying notes form an integral part of these consolidated financial statements

PJSC "Southern Telecommunications Company"

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2006

(Amounts in thousands of Rubles unless stated otherwise)

	Notes	Attributable to equity holders of the parent						
		Preference shares	**Ordinary shares**	**Retained earnings**	**Unrealized gain/(loss) on available-for-sale investments**	**Total before minority interest**	**Minority interest**	**Total equity**
Balance at December 31, 2004 (as previously reported)		751,302	2,287,953	7,685,171	–	10,724,426	64,064	10,788,490
Correction of errors		–	–	24,333	–	24,333	–	24,333
Balance at December 31, 2004 (as restated)		**751,302**	**2,287,953**	**7,709,504**	**–**	**10,748,759**	**64,064**	**10,812,823**
Loss for the year, as restated	**2**	–	–	(945,835)	–	(945,835)	(3,907)	(949,742)
Dividends to equity holders of the parent		–	–	(55,328)	–	(55,328)	–	(55,328)
Unrealized gain on available-for-sale investments		–	–	–	5,395	5,395	–	5,395
Acquisition of minority interests in subsidiaries		–	–	22,086	–	22,086	(48,089)	(26,003)
Balance at December 31, 2005 (as restated)		**751,302**	**2,287,953**	**6,730,427**	**5,395**	**9,775,077**	**12,068**	**9,787,145**
Profit for the year		–	–	350,543	–	350,543	(3,544)	346,999
Change due to disposal of available-for-sale investments		–	–	–	(5,395)	(5,395)	–	(5,395)
Dividends to equity holders of the parent	**32**	–	–	(61,044)	–	(61,044)	–	(61,044)
Balance at December 31, 2006		**751,302**	**2,287,953**	**7,019,926**	**–**	**10,059,181**	**8,524**	**10,067,705**

General Director______________ Andreev A.V. *Chief Accountant _____________Rusinova T.V*

The accompanying notes form an integral part of these consolidated financial statements

(Amounts in thousands of Rubles unless stated otherwise)

1. Corporate information

Authorization of Accounts

The consolidated financial statements of Public Joint-Stock Company "Southern Telecommunications Company" (hereinafter "the Company") and its subsidiaries (hereinafter "the Group") for the year ended December 31, 2006 were authorized for issue by the General Director and the Chief Accountant of the Company on June 26, 2007.

The Company

The Company, PJSC "Southern Telecommunications Company" is incorporated as a public joint-stock company in the Russian Federation.

As of December 31, 2006 an open joint-stock company "Svyazinvest", a holding company controlled by the Russian Government, owned 50.69% of the Company's ordinary voting stock.

Principal subsidiaries are disclosed in Note 7. All subsidiaries are incorporated under the laws of the Russian Federation.

The registered office of the Company is in Russia, Krasnodar, Karasunskaya st., 66.

The Company's principal activity is providing telephone services (including local, intrazone calls), telegraph, data transmission services, rent of communication channels and wireless communication services on the territory of Southern Federal District of the Russian Federation.

The principal activities of the Company are described in Note 26.

Liquidity and Financial Resources

As of December 31, 2006, the Company's current liabilities exceeded its current assets by 14,677,661 (December 31, 2005 – 13,632,173). Profit (losses) before income tax for the years 2006 and 2005 were 790,376 and (1,003,048), respectively. Liquidity ratio as of December 31, 2006 was 0.167 (2005: 0.212).

Extensive investment programs of 2003-2004 (11,075.1 mln. RUR; 12,262.3 mln. RUR, respectively) allowed the Company to perform network modernization, to increase significantly telephone numbers capacity and to increase the overall level of network digitalization up to 65.28%(for city networks up to 69.91%). This modernization enabled the Company to increase the range of new services provided. Investments into network modernization and development continued in 2005-2006 and amounted to 3,526.8 mln. RUR and 2,080.1 mln. RUR, respectively. The Company plans to invest 3,024.1 mln. RUR in the year 2007.

Financing for the network development and modernization came primarily in the form of short-term bank loans, bonds, mid-term vendor financing and leasing. As a result, the Company's short and long term debts increased significantly. Additionally, as of December 31, 2006 the Company classified 4,607,943 of debt to Credit Suisse International as current as a result of covenants violation (Note 20).

1. Corporate Information (continued)

Liquidity and Financial Resources (continued)

The Company is undertaking the following measures in order to decrease the working capital deficit and total debt burden:

- restructuring agreements with suppliers by extending payments up to 12 months;
- on-going cost cutting program;
- refinancing of bank loans in order to decrease the interest rates on loans agreements (effective average interest rate in 2006 was decreased to 11.08% (2005: 13.3%);
- replacing short-term borrowings with long-term debts (apart from the loan from Credit Suisse International, presented as short-term as of December 31, 2006, short-term debt decreased by 4,115,347 and long-term debt increased by 2,484,588 as compared to 2005 with total debt decreasing by 1,630,759);
- continuing to limit investments into network modernization and development to projects with mid-term payback period.

In 2006 the Company restructured its obligations to Vnesheconombank extending the repayment till 2012.

Through 2007 the Company expects to finance its activities by cash from operations, promissory notes, bonds and loans obtained from domestic and international lending organizations. As of December 31, 2006 the management has secured lines of credit of 1,016,000. Additionally, after the year end the Company secured 4,500,000 in the form of bank loans, of which approximately 1,500,000 were obtained as a result of open tender held in April, 2007. Interest rates on these loans are 6.45-9%.

In June 2007 the Company obtained a waiver from Credit Swiss International with regard to covenants violation in fourth quarter of the year 2006.

In June 2007 the Company placed 2,000,000 of bonds in the domestic market with the interest rate 7.55%. Bonds are to be redeemed in 2012.

In the second half of the year 2007 the management intends to hold open tenders on the long-term credit lines for the total amount 1,600,000.

As described above, the Company continues to rely on external financing to fund its operations and capital expenditures. As of December 31, 2006 the Company has certain amount of outstanding debt for which committed sources of financing have not been identified. The management plans to obtain this financing by means of open tenders and believes that such financing can be obtained in the amount and under the terms required.

Management believes that the financing plans described above are adequate to repay borrowings when they are due in the year 2007. Accordingly, when preparing the financial statements, the management of the Company proceeded on the basis of the assumption that the Company will continue as a going concern in the foreseeable future.

2. Basis of Presentation of the Financial Statements

Statement of Compliance

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

Presentation of Financial Statements

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31 each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

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

The consolidated financial statements of the Company are presented in thousands of Russian Rubles, except when otherwise indicated.

Basis of Accounting

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

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

The Company has transitioned to IFRS as of January 1, 2003 using the provisions of IFRS 1, "First-time Adoption of International Financial Reporting Standards", which is effective for periods starting on or after January 1, 2004. IFRS 1 applies to first-time adopters of IFRS including companies that previously applied some, but not all IFRS, and disclosed this fact in its most recent previous financial statements.

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

Management estimates that the carrying value of all of the Company's property, plant and equipment is broadly comparable to their fair values. However, management intends to engage an independent appraiser to support these fair values and as a result, the reported carrying amount of property, plant and equipment may be adjusted. It is expected that the appraisal will be completed in the near future.

The Russian economy was considered hyperinflationary until prior to January 1, 2003. As such, the Company applied IAS 29 "Financial Reporting in Hyperinflationary Economies" by restating non-monetary items, including components of equity (except for the property, plant and equipment as discussed above) to the measuring units current at January 1, 2003 by applying the relevant inflation indices to the historical cost. These restated values were used as a basis for accounting in subsequent periods.

2. Basis of Presentation of the Financial Statements (continued)

Basis of Accounting (continued)

Changes in Accounting Policies

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

The changes in accounting policies result from adoption of the following new or amended standards and interpretations:

- IFRS 6 "Exploration for and Evaluation of Mineral Resources";
- IAS 19 (amended 2005) "Employee benefits";
- IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement"
- IFRIC 4 "Determining whether an Arrangement contains a Lease";
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

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

IAS 19 (amended 2005) "Employee Benefits"

As of January 1, 2006, the Company adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans. This change has resulted in additional disclosures being included for the years ending December 31, 2006 and December 31, 2005 but has not had a recognition or measurement impact, as the Company choose not to apply the new option offered to recognize actuarial gains and losses outside of the income statement.

IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement"

The amendment to IAS 39 in 2005

- required to include financial guarantee contracts issued into financial instruments;
- permitted the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the financial statements;
- restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss.

As of December 31, 2006 and 2005 the Company presented in financial statements the financial guarantees issued as changes in accounting policy (See Note 33).

Except for the presentation in financial statements as of December 31, 2006 and 2005 of the financial guarantees given, the amendments stated above did not have an effect on the Company's financial statements.

2. Basis of Presentation of the Financial Statements (continued)

Basis of Accounting (continued)

IFRIC 4 "Determining whether an Arrangement Contains a Lease"

IFRIC 4 provides guidance for determining whether arrangements are, or contain, leases that should be accounted for in accordance with IAS 17, if the arrangements comprise a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments. The adoption of this IFRIC Interpretation as of January 1, 2006 has not had a significant impact on the Company's financial statements as of December 31, 2006 or December 31, 2005.

IFRSs and IFRIC Interpretations not yet Effective

The Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 (amended 2005) "Presentation of Financial Statements – Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"

IFRS 7 "Financial Instruments: Disclosures" replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after January 1, 2007.

The amendment of IAS 1 "Presentation of Financial Statements – Capital Disclosures" requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after January 1, 2007.

IFRIC 8 clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instrument granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 becomes effective for financial years beginning on or after May 1, 2006.

IFRIC 9 clarifies, that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity shall apply this interpretation for annual periods beginning on or after June 1, 2006.

Applying IFRIC 10, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall apply this interpretation for annual periods beginning on or after November 1, 2006.

IFRIC 11 addresses the issues whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after March 1, 2007.

2. Basis of Presentation of the Financial Statements (continued)

Basis of Accounting (continued)

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company’s results of operations and financial position in the period of initial application. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements. Primarily as a result of the adoption the amendments to IAS 1, the Company will make disclosures to enable users of the financial statements to evaluate its objectives, polices and processes for managing capital.

Judgments

In the process of applying the Company’s accounting policies, management has made the judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements relating to the value and useful life of property, plant and equipment, intangible assets, provision for impairment of receivables, pension liabilities and deferred taxation, as discussed in Notes 5, 6, 14, 24 and 30.

Classification of Lease Agreements

A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership of if the related arrangement conveys to the Company the right to control the use of the underlying asset, otherwise it is classified as operating lease.

Estimation Uncertainty

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

Useful Life of Property, Plant and Equipment

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

Impairment of Property, Plant and Equipment

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

2. Basis of Presentation of the Financial Statements (continued)

Estimation Uncertainty (continued)

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Company to make estimates of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Company is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

Impairment of Goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. The Company's exercise the judgment when identifies the cash-generating unit to which the goodwill acquired in a business combination shall be allocated, what is the Company's cash generating unit that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to this unit. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2006 was 8 868 (2005: 15 218). More details are provided in Note 6.

Fair Values of Unlisted Available-For-Sale Investments

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models. These valuation techniques are based on assumptions that are not supported by observable market prices or rates. Management believes the estimated fair values resulting from the valuation technique which are recorded in the balance sheet and the related changes in the fair values recorded in the statement of changes in equity are reasonable and the most appropriate at the balance sheet date.

Provision for Impairment of Accounts Receivable

Provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible. As of December 31, 2006, allowances for doubtful accounts have been created in the amount of 292,414 (2005: 744,253). More details are provided in Note 14.

2. Basis of Presentation of the Financial Statements (continued)

Estimation Uncertainty (continued)

Pension Obligations

Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a limited extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. More details are provided in Note 24.

Litigations

The Company exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as legal counsel. Revisions to the estimates may significantly affect future operating results. More details are provided in Note 33.

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group’s entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group’s entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As of December 31, 2006 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Notes 23 and 33.

Deferred Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss.

2. Basis of Presentation of the Financial Statements (continued)

Correction of Errors

The Company corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for the prior period presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. The most significant corrections of prior periods' errors are described below.

Membership fees in "Non-commercial partnership "Center for Research of Problems in Development of Telecommunications"

In 2005 the Company had committed itself to contribute 122,930 to the Non-commercial partnership "Center for Research of Problems in Development of Telecommunications" (hereafter also - the Partnership), a related party (see Note 34), in accordance with a decision of the governing body of the Partnership and a decision of the Company's Board of Directors. In 2005 the Company had formalized an agreement with the Partnership to contribute 27,930 and recognized a liability for this amount in its balance sheet as of December 31, 2005, rather than for the full amount of 122,930. In 2006 the Company contributed the remaining amount of 95,000. The Company has made an adjustment to comparatives for the year 2005 to the amount of 95,000 in respect of accrued liabilities as of December 31, 2005 and Other operating expenses for the year ended December 31, 2005.

This adjustment increased the amount of net loss for the year ended December 31, 2005 by 95,000 and decreased the amount of retained earnings by 95,000. As a result, the amount of the basic and diluted loss attributable to equity holders of the parent for the year 2005 increased by 0.024 ruble.

The membership fees in "Non-commercial partnership "Center for Research of Problems in Development of Telecommunications" represent non tax deductible expenses.

Correction of net assets of CJSC "Volgograd-GSM", a jointly controlled entity

In 2006 the management of CJSC "Volgograd-GSM" has revised the tax bases for fixed assets as at December 31, 2005, resulting in the increase of deferred tax liabilities and corresponding decrease of this company's net assets for the year 2005 by 14,308. The Company restated the comparatives by decreasing its investments as of December 31, 2005 and equity income for the year 2005 by 14,308. Respectively, deferred tax liability and deferred tax charge have been decreased by 1,288.

This adjustment increased the net loss for the year ended December 31, 2005 by 13,020 and decreased the amount of the retained earnings as of December 31, 2005 by 13,020. As a result, the amount of the basic and diluted loss attributable to equity holders of the parent for the year 2005 increased by 0.003 ruble.

Presentation of the obligations on bonds of series 02

In 2006 the Company corrected an error in amortized costs calculation for the bonds series 02, resulting in the increase of short-term part of bonds obligations and decrease of interest payable as of December 31, 2005 by the amount of 60,483. Respective adjustment was made to comparatives for the year 2005.

This adjustment has no impact on the net loss for the year ended December 31, 2005 and retained earnings as of December 31, 2005, and respectively, on the amount of the basic and diluted loss attributable to equity holders of the parent for the year 2005.

2. Basis of Presentation of the Financial Statements (continued)

Correction of Errors (continued)

Omitted operations with Joint Venture CJSC “Westelcom”

In 2006 the Company identified unbilled revenues on services provided to joint venture CSJC “Westelcom” during the period from 1998 to 2004 in the amount of 32,108 (net of VAT). Adjustments were made to restate retained earnings as of December 31, 2004 for this amount, net of taxes. The management believes that these receivables became doubtful as of December 31, 2005 with the termination of the joint venture and a provision for doubtful debts in amount of 38,376 has been recorded as restatement in the year 2005.

As a result, these adjustments increased bad debt expense for the year 2005 and provision for doubtful debts as of December 31, 2005 by 38,376, increased deferred tax benefit for the year 2005 by 9,210 and increased deferred tax asset as of December 31, 2005 by 9,210.

Accordingly, retained earnings as of December 31, 2004 increased by 24,333, net loss for the year 2005 increased by 29,166 and retained earnings as of December 31, 2005 decreased by 4,833. The amount of the basic and diluted loss attributable to equity holders of the parent for the year 2005 increased by 0.007.

Impairment of investments in OJSC “BETO”

The management of the Company identified impairment of investment in OJSC “BETO” as at December 31, 2005 in the amount of 25,589 and respective adjustments to the comparatives for the year 2005 were made.

These adjustments increased the amounts of the provision for impairment and related impairment loss for available for sale investments for the year 2005 by 25,589, increased the amount of deferred tax benefit for the year 2005 by 6,141 and decreased the amount of deferred tax liability as at December 31, 2005 by 6,141.

Accordingly, the net loss for the year 2005 increased by 19,448 and retained earnings as of December 31, 2005 decreased by 19,488. The amount of the basic and diluted loss attributable to equity holders of the parent for the year 2005 increased by 0.005.

Accounting for Deferred Income Taxes

In 2006 the Company restated deferred taxes as of December 31, 2005 due to errors identified in tax bases for fixed assets, intangibles, pension obligations and accruals for bonuses and unused vacations. Accordingly, adjustments were made to comparatives for the year 2005 which decreased the deferred tax liability and deferred tax charge by 284,861.

The amount of the net loss for the year ended December 31, 2005 decreased by 284,861 and the amount of the retained earnings as of December 31, 2005 increased by 284,861. As a result, the amount of the basic and diluted loss attributable to equity holders of the parent for the year 2005 decreased by 0.072 ruble.

(Amounts in thousands of Rubles unless stated otherwise)

2. Basis of Presentation of the Financial Statements (continued)

Correction of Errors (continued)

The Company adjusted comparatives as of December 31, 2005 for the items discussed above and for the change in accounting policy (see Notes 2, 25 and 33) as follows.

	As previously reported	Correction of errors	Change in accounting policy	As restated
Consolidated balance sheet as of December 31, 2005				
Property, plant and equipment	33,081,215	–	–	**33,081,215**
Intangible assets and goodwill	1,637,489	–	–	**1,637,489**
Investments, accounted for using the equity method	578,761	(14,309)	–	**564,452**
Long–term investments	45,421	(25,589)	–	**19,832**
Long-term accounts receivable and other assets	495,064	–	–	**495,064**
Long-term advances given	212,288	–	–	**212,288**
Deferred income tax asset	–	8,342	–	**8,342**
Inventories	860,130	–	–	**860,130**
Trade and other receivables	755,722	–	–	**755,722**
Prepaid income tax	131,228	–	–	**131,228**
Other current assets	1,157,195	–		**1,157,195**
Cash and cash equivalents	772,082	–	–	**772,082**
Total assets	**39,726,595**	**(31,556)**	**–**	**39,695,039**
Long-term borrowings	8,454,716	–	–	**8,454,716**
Long–term finance lease obligations	2,071,503	–	(36,594)	**2,034,909**
Pension liabilities	868,052	–	–	**868,052**
Deferred revenue	477,693	2	–	**477,695**
Deferred income tax liability	992,104	(264,706)	–	**727,398**
Long-term provision	–	–	36,594	**36,594**
Accounts payable, accrued expenses and advances received	3,084,511	95,000	–	**3,179,511**
Payables to OJSC "Rostelecom"	134,906	–	–	**134,906**
Income tax payable	375	–	–	**375**
Other taxes payable	575,046	6,358	–	**581,404**
Dividends payable	30,067	–	–	**30,067**
Short–term borrowings	2,227,161	(60,483)	–	**2,166,678**
Current portion of long–term borrowings	10,141,593	60,483	–	**10,202,076**
Current portion of long–term finance lease obligations	1,013,513	–	(19,540)	**993,973**
Short-term provisions	–	–	19,540	**19,540**
Total liabilities	**30,071,240**	**(163,346)**	**–**	**29,907,894**
Minority interest	12,068	–	–	**12,068**
Equity attributable to equity holders of the parent company as of December 31, 2005	**9,643,287**	**131,790**	**–**	**9,775,077**

(Amounts in thousands of Rubles unless stated otherwise)

2. Basis of Presentation of the Financial Statements (continued)

Correction of Errors (continued)

	As previously reported	Correction of errors	Reclassification to disposal group	As restated
Consolidated Income Statement for the year ended December 31, 2005				
Revenue	18,773,947	–	(9,656)	**18,764,291**
Wages, salaries, other benefits and payroll taxes	(6,006,300)	–		**(6,006,300)**
Depreciation and amortization	(3,175,895)	–	11,996	**(3,163,899)**
Materials, repairs and maintenance, utilities	(2,037,419)	–		**(2,037,419)**
Taxes other than income tax	(748,531)	–		**(748,531)**
Interconnection charges	(2,622,215)	–		**(2,622,215)**
Recovery of (provision for) impairment of receivables	(255,807)	(38,376)		**(294,183)**
Loss on disposal of property, plant and equipment	(167,372)	–		**(167,372)**
Other operating expenses	(1,992,485)	(95,000)	10,725	**(2,076,760)**
Share of result of investments accounted for using the equity method	126,149	(14,309)		**111,840**
Interest expense, net	(2,866,329)	–		**(2,866,329)**
Gain on subsidiaries, associates and other investments	(4,057)	(25,589)		**(29,646)**
Foreign exchange gain, net	133,475	–		**133,475**
Income tax expense	(214,360)	280,731	(2,828)	**63,543**
Loss for the year ended December 31, 2005	**(1,057,199)**	**107,457**	**10,237**	**(939,505)**
Basic and diluted loss per share attributable to equity holders of the parent, Russian Rubles	**(0.268)**	**0.027**	**0.003**	**(0.239)**

As of December 31, 2005 the Company also reclassified 1,256 of Short-term investments to Other current assets to conform with the presentation for the year 2006.

3. Summary of Significant Accounting Policies

3.1 Principles of Consolidation

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

Subsidiaries

Subsidiaries are those entities in which the Company has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Company.

3. Summary of Significant Accounting Policies (continued)

3.1 Principles of Consolidation (continued)

Acquisition of Subsidiaries

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

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

Increases in Ownership Interests in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

3.2 Interest in a Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. The Company recognizes its interest in a jointly controlled entity using the equity method.

3.3 Investments in Associates

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

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

3.4 Investments and other Financial Assets and Liabilities

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets at initial recognition. All purchases and sales of instruments are recognized on the settlement date which is the date that the investment is delivered to or by the Company.

3. Summary of Significant Accounting Policies (continued)

3.4 Investments and other Financial Assets and Liabilities (continued)

Investments classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in income. During the period the Company did not hold any investments in the category “financial assets at fair value through profit or loss”.

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold them to maturity are classified as held-to-maturity. During the period the Company did not hold any investments in this category.

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

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

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Financial liabilities include contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or a contract that will or may be settled in the Company’s own equity instruments and is a non-derivative for which the Company is or may be obliged to deliver a variable number of the Company’s own equity instruments or a derivative that will or may be settled. For this purpose the Company’s own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the Company’s own equity instruments.

The Company recognizes a financial asset or a financial liability on its balance sheet when, and only when, the Company becomes a party to the contractual provisions of the instrument.

When a financial asset or financial liability is recognized initially, the Company measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The Company classifies its financial assets and financial liabilities as current or non-current based on term of its maturity taking into account other factors that limit the Company’s ability to realize assets within 12 months or existence of call options in financial liabilities valid within 12 months after the balance sheet date.

(Amounts in thousands of Rubles unless stated otherwise)

3. Summary of Significant Accounting Policies (continued)

3.4 Investments and other Financial Assets and Liabilities

Financial asset is derecognized when the rights to receive cash flows from the asset expired or the Company transferred its rights to receive cash flows from the asset.

Financial liability is derecognized from the balance sheet when it is extinguished, i.e. the obligation specified in the contract is discharged or cancelled or expires. An exchange between borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

3.5 Foreign Currency Transactions

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

Assets and liabilities settled in Rubles but denominated in foreign currencies are recorded in the Company's consolidated financial statements using the same principles as for assets and liabilities denominated in foreign currencies.

The exchange rates as of December 31 were as follows:

	2006	**2005**
Russian Rubles per US dollar	**26.3311**	28.7825
Russian Rubles per Euro	**34.6965**	34.1850

3.6 Property, Plant and Equipment

3.6.1 Property, Plant and Equipment

Property, plant and equipment are recorded at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognized as an expense (impairment loss) in the income statement. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Carrying values of the Company's property, plan and equipment as at the date of transition to IFRS, January 1, 2003, was measured at fair value used as its deemed cost at that date.

3. Summary of Significant Accounting Policies (continued)

3.6 Property, Plant and Equipment (continued)

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalized, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

When each major inspection is performed, its cost is recognized as a component in the carrying amount of the plant and equipment as a replacement of the assets if the recognition criteria are satisfied.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

3.6.2 Depreciation and Useful life

Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

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

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

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

3.6.3 Assets Received Free of Charge

Equipment transferred to the Company free of charge by its customers and other entities outside the privatization process is capitalized at market value at the date of transfer. A corresponding income is fully recognized in the income statement. In cases transfers of equipment relate to the rendering of future services to the transferee the equipment is considered deferred revenue which is recognized as income on the same basis that the equipment is depreciated.

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

3. Summary of Significant Accounting Policies (continued)

3.7 Intangible Assets and Goodwill

3.7.1 Goodwill

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

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

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

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

If the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate exceeds the cost of the business combination, the identifiable assets, liabilities and contingent liabilities are re-assessed and re-measured. Any excess remaining after reassessment is immediately recognized in the income statement.

3.7.2 Licenses

License costs represent either an allocation of the purchase price to licenses acquired in business combinations or the payments made to government organizations to receive the licenses. License costs are capitalized and amortized on a straight-line basis over their expected useful lives from the date operations commenced in the license area.

Following initial recognition, licenses are carried at cost less any accumulated amortization and any accumulated impairment losses.

3.7.3 Software and Other Intangible Assets

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

3. Summary of Significant Accounting Policies (continued)

3.7 Intangible Assets and Goodwill (continued)

3.7.4 Useful Life and Amortization of Intangible Assets

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

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

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

The cost of licenses and software is depreciated on a straight-line basis over the estimated useful life equal to the term of the licenses or the right to use the software. Useful life of other intangible assets is approximately 5 years.

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

3.7.5 Impairment of Intangible Assets

The Company assesses at each reporting date whether there is any indication that intangible assets may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed before the end of the current annual period.

3.8 Leases

Leases where all the risks and rewards of ownership of the asset are transferred from lessor to lessee are classified as finance leases.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

3. Summary of Significant Accounting Policies (continued)

3.8 Leases (continued)

3.8.1 Finance Leases

At the commencement of the lease term, or the date from which the lessee is entitled to exercise its right to use the leased asset, the Company recognizes finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. At the commencement of the lease term, the asset and the liability for the future lease payments are recognized in the balance sheet at the same amounts except for any initial direct costs of the lessee that are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned, and the depreciation recognized is calculated in accordance with the accounting policy of the Company applicable for depreciable and amortized assets. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

3.8.2 Operational Leases

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

3.9 Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory written-down is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

3.10 Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and at hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

3.11 Accounts Receivable and Provision for Impairment of Receivables

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

3. Summary of Significant Accounting Policies (continued)

3.11 Accounts Receivable and Provision for Impairment of Receivables (continued)

Provision for impairment of receivables is created on the basis of the historical pattern of collections of accounts receivable and specific analysis of recoverability of significant accounts.

Provision for impairment is also created for other accounts receivable on the basis of the assessment of the Company’s ability to collect the debts.

Provision for impairment is recognized in the consolidated income statement. The carrying amount of current trade receivables is a reasonable approximation of their fair value.

The fair value of non-current trade receivables is calculated using the effective interest method.

3.12 Borrowings

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

3.13 Borrowing costs

The borrowing costs are capitalized by the Company as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs are directly attributable to the acquisition, construction or production of a qualifying asset including construction in progress.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset is determined as the actual borrowing costs incurred on that borrowing during the period.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

3.14 Employee Benefits

3.14.1 Unified Social Tax

Under provisions of the Russian legislation, social contributions are made through a unified social tax (“UST”) calculated by the Company by the application of a regressive rate (from 26% to 12%) to the annual gross remuneration of each employee. The Company allocates the UST to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund vary from 20% to 10% depending on the annual gross salary of each employee.

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

3. Summary of Significant Accounting Policies (continued)

3.14 Employee Benefits (continued)

3.14.2 Current Employment Benefits

Wages and salaries paid to employees are recognized as expense in current period. The Company also accrues expenses for employees' unused vacations.

3.14.3 Pensions and Other Post-Employment Benefit Plans

Post employment benefit plans include define contribution plan and defined benefit plan.

A defined contribution plan is a post-employment benefit plan under which the Company's obligation is limited solely to the amount of a contribution it agrees to pay into a fund. In this case all actuarial and investment risks are borne by employees. The Company recognizes contributions under a defined contribution plan in the period to which they are attributable.

Under defined benefit plans, the Company's obligation is to provide the agreed benefits to current and former employees. In this case actuarial and investment risks fall on the Company.

The Company provides defined benefit pension plan, which requires contributions to be made to a separately administered fund. The Company also provides certain additional post-employment benefits and other long-service employees benefits of a defined nature such as lump-sum payments upon retirement and death and financial support to the Company's old age and disabled pensioners.

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The past service cost arises when the Company introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. The past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprise any resulting change in the present value of the defined benefit obligation, any resulting change in the fair value of the plan assets and any related actuarial gains and losses and past service cost that had not previously been recognized. A curtailment occurs when the Company either is demonstrably committed to make a material reduction in the number of employees covered by a plan, or amends the terms of a defined benefit plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits. A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

3. Summary of Significant Accounting Policies (continued)

3.15 Income Taxes

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are not discounted.

3.16 Value Added Tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

Value Added Tax payable

Prior to 2006, VAT was payable by the Group to tax authorities upon collection of receivables from customers. VAT on purchases, which had been settled at the balance sheet date, was deducted from the amount of VAT payable. In addition, VAT related to sales which had not been collected, and therefore currently not due, at the balance sheet date was included in the VAT payable line item.

3. Summary of Significant Accounting Policies (continued)

3.16 Value Added Tax (continued)

Starting from 2006, VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Value Added Tax Recoverable

VAT recoverable arises when VAT related to purchases exceeds VAT related to sales.

In addition, prior to 2006, VAT recoverable line item included VAT related to purchases, which had not been settled at the balance sheet date, and to property, plant and equipment not yet put into operation. However, this amount was reclaimable against VAT related to sales only upon payment for the purchases or putting property, plant and equipment into operation.

3.17 Provisions

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

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

3.18 Equity

3.18.1 Share Capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

3.18.2 Dividends

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

3. Summary of Significant Accounting Policies (continued)

3.19 Minority Interest

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

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Company.

3.20 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenues from sales of inventory are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenues from services are recognized in the period when services are rendered.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

The Company categorizes the revenue sources in thirteen major categories:
1. Intrazone telephone calls;
2. Local telephone calls;
3. Services to national operators;
4. Fees on assistance services;
5. New services (Internet, ISDN, ADSL, IP-telephony);
6. Installation and connection fees;
7. Radio and TV broadcasting;
8. Data transfer and telematic services;
9. Rent of telephone channels;
10. Cellular services;
11. Documentary services;
12. Other telecommunication services;
13. Other revenues.

Intrazone telephone services

The Company recognizes revenue related to the intrazone telephone services in the period when the services are rendered.

Local Telephone Calls

Revenue from the local telephone services depends on the duration of the telephone connections and subscription fee if the time-driven billing scheme is applied. If fixed payment scheme is applied then revenue depends on the subscription fee only. Customers of the Company use the service via installed fixed telephone, as well the service could be accessed by means of pay-phone. The Company recognizes revenues related to the monthly network fees for local services in the month the service is provided to the subscriber.

3. Summary of Significant Accounting Policies (continued)

3.20 Revenue Recognition (continued)

Services to National Operators

Services to national operators include interconnection revenues from Russian operators and charges for interconnection points, revenues received from the local and inter-zone calls termination in the Company’s network and in the networks of interconnect operators. The Company recognizes revenues from national operators in the period when the services are rendered.

Fees on Assistance Services

Fees on assistance services include fees for services provided to long-distance operators under the assistance agreements. These services comprise subscribers billing and invoicing for long-distance calls, delivery of bills, collection of respective receivables and some other services. The Company recognizes revenues related to assistance services in the period when the services are rendered.

New Services (Internet, ISDN, ADSL, IP-telephony)

Major revenues from new services include internet services, ISDN, ADSL, IP-telephony, intelligent network services. The Company recognizes revenues related to new services in the period when the services are rendered.

Installation and Connection Fees

Installation and connection fees for indefinite period contracts are paid by a combination of a fixed cash amount and by the contribution of fixed assets consisting of cable and duct, commonly referred to as the “last mile”. Revenue received in the form of cash is recognized when the installation and connection are complete. For installation and connection fees paid in the form of fixed assets, revenue is deferred and recognized as income on the same basis that the fixed assets are depreciated.

Radio and TV Broadcasting

The Company maintains a wireline radio broadcasting network. The revenues comprise monthly fees from subscribers and installation fees for wireline radio sets. The Company recognizes the revenues related to radio broadcasting in the period when the services are rendered.

Data Transfer and Telematics Services

The Company recognizes revenues related to data transfer and telematics services in the period when the services are rendered.

Rent of Telephone Channels

Major revenues are recognized from the following services: rent of intercity and international, digital, analogue, and telegraph channels. The Company recognizes revenues from the rent of channels in the period when the services are rendered.

3. Summary of Significant Accounting Policies (continued)

3.20 Revenue Recognition (continued)

Cellular Services

Major revenues from cellular services arise from airtime services, subscription fees, value added services, outbound and inbound roaming. The Company recognizes revenues related to mobile telecommunications services in the period when the services are rendered.

Documentary Services

Revenues from telegraph services comprise fees for telegram transmissions and other wire line data transmission services. The Company recognizes revenues related to telegraph services in the period when the services are rendered.

Other Telecommunication Services

Other telecommunication services primarily consist of revenues received by public switched telephone network (PSTN) stations from the rent of direct lines and local junctions, as well as subscription fees for wired-radio outlets. The Company recognizes revenues related to other services in the period when the services are rendered.

Other Revenues

Other revenues primarily consist of revenues received from manufacturing of the telecommunication equipment and its technical support, transportation services, recreation services and sale of products and services provided by auxiliary units.

3.21 Earnings per Share

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

The Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (Note 31).

3.22 Contingent Assets and Contingent Liabilities

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

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

3. Summary of Significant Accounting Policies (continued)

3.23 Related Party Transactions

The Company defines the following terms to specify the related party: a party is related to the Company if:

1. directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries), has an interest in the entity that gives it significant influence over the entity or has joint control over the entity;
2. the party is an associate (as defined in IAS 28 Investments in Associates) of the entity;
3. the party is a joint venture in which the entity is a venturer (see IAS 31 Interests in Joint Ventures);
4. the party is a member of the key management personnel of the entity or its parent;
5. the party is a close member of the family of any individual referred to in (1) or (4);
6. the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (4) or (5); or
7. the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Relationships between the parent and its subsidiaries and between subsidiaries themselves are not disclosed by the Company.

The Company discloses information on related party transactions with third parties controlled by the government of Russian Federation.

3.24 Events after Balance Sheet Date

The Company adjusts the amounts that recognized in its financial statements to reflect adjusting events after the balance sheet date. Events that require an entity to adjust the amounts recognized in its financial statements are caused by favorable and unfavorable outcomes of conditions that existed at the balance sheet date.

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

3.25 Accounting Policies, Changes in Accounting Estimates and Errors

Change in Accounting Policies

The Company changes an accounting policy only if the change is required by a Standard or an Interpretation of IFRS or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Company’s financial position, financial performance or cash flows.

The Company applies the change in accounting policies retrospectively and adjusts the opening balance of each affected component of equity for the earliest prior period presented and other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

3. Summary of Significant Accounting Policies (continued)

3.25 Accounting Policies, Changes in Accounting Estimates and Errors (continued)

Changes in Accounting Estimates

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate. The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only or the period of the change and future periods, if the change affects both.

Prior Period Errors

The Company corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for the prior period presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

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

3.26 Non-current assets Held for Sale and Discontinued Operations

A discontinued operation is a component of the Company that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single co-coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

The Company classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The Company measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) are measured in accordance with applicable IFRSs.

The Company presents and discloses information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

(Amounts in thousands of Rubles unless stated otherwise)

4. Segment Information

The Company provides the wireline telecommunication services, on the territory of the Southern Federal District regions of the Russian Federation. The Company’s structure is based on territorial units which service the corresponding parts of the Company’s network. The Company’s management considers that the Company operates in one geographical and business segment and evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Company as a whole.

5. Property, Plan and Equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Land, buildings and constructions	Switches and transmission devices	Vehicles and other	Assets under construction	Total
Cost					
At December 31, 2004	**15,921,342**	**14,015,417**	**2,651,028**	**4,943,803**	**37,531,590**
Additions	–	–	–	2,964,176	2,964,176
Disposals	(234,129)	(401,924)	(106,707)	(83,513)	(826,273)
Disposals due to sale of subsidiaries	(49,720)	(107)	(12,465)	–	(62,292)
Put into operation	2,691,854	2,025,047	484,093	(5,200,994)	–
At December 31, 2005	**18,329,347**	**15,638,433**	**3,015,949**	**2,623,472**	**39,607,201**
Additions				**2,361,759**	**2,361,759**
Disposals	**(64,130)**	**(286,491)**	**(76,450)**	**(26,973)**	**(454,044)**
Reclassification to disposal group	**–**	**–**	**–**	**(2,071)**	**(2,071)**
Put into operation	**681,448**	**1,375,059**	**335,482**	**(2,391,989)**	**–**
At December 31, 2006	**18,946,665**	**16,727,001**	**3,274,981**	**2,564,198**	**41,512,845**
Accumulated Depreciation					
At December 31, 2004	**(1,076,362)**	**(2,395,639)**	**(503,093)**	**–**	**(3,975,094)**
Charge for the year	(793,505)	(1,998,151)	(356,704)	–	(3,148,360)
Disposals	162,917	326,915	91,294	–	581,126
Disposals due to sale of subsidiaries	5,231	105	11,006	–	16,342
At December 31, 2005	**(1,701,719)**	**(4,066,770)**	**(757,497)**	**–**	**(6,525,986)**
Charge for the year	(848,235)	(2,065,821)	(337,828)	–	(3,251,884)
Disposals	55,306	244,412	60,545	–	360,263
At December 31, 2006	**(2,494,648)**	**(5,888,179)**	**(1,034,780)**	**–**	**(9,417,607)**
Net book value as of December 31, 2004	**14,844,980**	**11,619,778**	**2,147,935**	**4,943,803**	**33,556,496**
Net book value as of December 31, 2005	**16,627,628**	**11,571,663**	**2,258,452**	**2,623,472**	**33,081,215**
Net book value as of December 31, 2006	**16,452,017**	**10,838,822**	**2,238,130**	**2,566,269**	**32,095,238**

The net book value of property, plant and equipment, which were received on vendor financing terms, amounted as of December 31, 2006 to 585,843 (2005: 691,188)

In 2006 the Company capitalized in the cost of construction in progress the interest amounted to 305,152 (2005: 323,225). The capitalization rate for 2006 is 11.08 % (2005: 13.3%).

(Amounts in thousands of Rubles unless stated otherwise)

5. Property, Plan and Equipment (continued)

As of December 31, 2006 the bank borrowings are secured on properties of the value of 6,323,931 (2005: 7,492,753). (Note 20).

The above tables include equipment and other fixed assets leased under finance lease agreements as of December 31, 2006 and 2005 as follows:

	Switches and transmission devices	Vehicles and other	Assets under construction and equipment for installation	Total
Cost	4,081,267	43,480	819,909	4,944,656
Accumulated Depreciation	(470,401)	(8,943)	–	(479,344)
Net Book Value as of December 31, 2005	**3,610,866**	**34,537**	**819,909**	**4,465,312**
Cost	4,448,901	45,262	331,248	4,825,411
Accumulated Depreciation	(765,396)	(12,570)	–	(777,966)
Net Book Value as of December 31, 2006	**3,683,505**	**32,692**	**331,248**	**4,047,445**

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

The assets transferred to the Company upon privatization do not include the land on which the Company's buildings, comprising the Company's principal operating facilities, are situated. The land on which the Company's operating facilities are situated is rented by the Company from local authorities under the operating lease agreements. These lease agreements are signed for five year and may be prorogated by the Company without significant additional costs. Lease payments for land related to Company's operating facilities can be changed subject to agreement by the parties. The future minimum lease payments under non-cancelable operating leases of land are disclosed in Note 33.

(Amounts in thousands of Rubles unless stated otherwise)

6. Intangible Assets and Goodwill

Intangible assets and related accumulated amortization and impairment consist of the following:

	Goodwill	Licenses	Software	Others	Total
Cost or Valuation					
At December 31, 2004	**15,218**	**58,913**	**1,358,116**	**2,148**	**1,434,395**
Additions	–	1,255	257,915	56	259,226
At December 31, 2005	**15,218**	**60,168**	**1,616,031**	**2,204**	**1,693,621**
Additions	–	27,487	313,849	–	341,336
Disposal	–	(6)	(456)	(377)	(839)
Reclassification to disposal group	(15,218)	(53,013)	–	–	(68,231)
At December 31, 2006	**–**	**34,636**	**1,929,424**	**1,827**	**1,965,887**
Accumulated amortization and Impairment					
At December 31, 2004	**–**	**(10,901)**	**(16,415)**	**(1,281)**	**(28,597)**
Charge for the year	–	(752)	(14,408)	(379)	(15,539)
Charge for disposal group	–	(11,996)	–	–	(11,996)
At December 31, 2005	**–**	**(23,649)**	**(30,823)**	**(1,660)**	**(56,132)**
Charge for the year	–	(752)	(71,724)	(382)	(72,858)
Charge for disposal group	–	(11,140)	–	–	(11,140)
Disposals	–	–		248	248
Impairment	(6,350)	–	–	–	(6,350)
Reclassification to disposal group	6,350	29,451	–	–	35,801
At December 31, 2006	**–**	**(6,090)**	**(102,547)**	**(1,794)**	**(110,431)**
Net book value at December 31, 2004	**15,218**	**48,012**	**1,341,701**	**867**	**1,405,798**
Net book value at December 31, 2005	**15,218**	**36,519**	**1,585,208**	**544**	**1,637,489**
Net book value at December 31, 2006	**–**	**28,546**	**1,826,877**	**33**	**1,855,456**

Oracle E-Business Suite (OEBS)

As of December 31, 2006 software includes OEBS software with a gross book value of 1,051,721 (2005: 909,829) including implementation costs totaling 266,065 (2005: 219,658) and interest capitalized totaling 213,501 (2005: 143,223). Capitalization rate is 11,08% (2005: 13,3 %). In accordance with the supply contract, the Company acquired non-exclusive licenses for 10,745 users of E-business Suite 2004 Professional. Useful life of Oracle E-Business Suite software is determined as 10 years.

The Company started to use this software in September 2006 and commenced amortization of the costs of the software related to the number of licenses in use over the useful life of the licenses. Implementation of Oracle E-Business Suite software is expected to be completed by 2009.

Amdocs Billing Suite

As of December 31, 2006 software also includes Amdocs Billing Suite software with a gross book value of 690,173 (2005: 591,965), including the implementation costs totaling 220,034 (2005: 64, 673). This software was purchased for the purpose of the implementation of unified automated settlements system. The project of implementation of the unified billing system is expected to last for 4-5 years.

Amdocs Billing Suite software was supplied by LLC “IBM Eastern Europe/Asia” in December 2005, in exchange for 18 zero coupon promissory notes for the total amount of 648,810. As of December 31, 2006 the Company fully repaid the promissory notes issued.

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

(Amounts in thousands of Rubles unless stated otherwise)

6. Intangible Assets and Goodwill (continued)

Licenses

As of December 31, 2006 licenses mainly included licenses for providing the following types of services:

- local and intrazone telecommunication services;
- local telecommunication services by payphones;
- rent of channels;
- telematic services;
- data transmission services;
- data transmission services for voice information transmission
- cable casting services.

Impairment of the Assets

The goodwill acquired through business combination has been allocated to one cash generating unit LLC TO "Accent", for the purpose of impairment testing.

The recoverable amount of LLC TO "Accent" was defined based on the actual selling price of the share of the Company in this subsidiary. In May, 2007 the share of the Company in LLC TO "Accent" has been sold for 11,000.

Based on the results of the impairment test as at December 31, 2006, an impairment loss has been identified in amount 6,350. Impairment loss was fully allocated to goodwill. After impairment, the goodwill allocated to LLC TO "Accent" amounted to 8,868 (2005 – 15,218).

7. Consolidated Subsidiaries

Subsidiaries consolidated and the share of voting interest held by the Company, are as follows:

		Ownership,%		Voting Shares	
Description	**Activity**	**2006**	**2005**	**2006**	**2005**
CJSC "Armavirskiy Zavod Svyazi"	Cable production	**100**	100	**100**	100
CJSC "Yugsvyazstroy"	Construction services	**100**	100	**100**	100
OJSC "Orbita" Recreational House"	Recreational services	**100**	100	**100**	100
OJSC "Stavtelecom named after V.I.Kuzminov" (OJSC "Stavtelecom")	Local, intercity communications, data transfer	**100**	100	**100**	100
LLC "Intmashservice"	Communication facilities repairs and support	**100**	100	**100**	100
LLC "Faktorial- 99"	Informational and commercial agency activity	**100**	100	**100**	100
LLC "YuTC-Finance"	Financial Service	**100**	100	**100**	100
CJSC TRC "Photon"	Commercial TV and radio broadcasting services	**51**	51	**51**	51
LLC TO "Accent"	Commercial TV and radio broadcasting services	**51**	51	**51**	51

All the above companies are Russian legal entities and have the same financial year as the Company.

(Amounts in thousands of Rubles unless stated otherwise)

8. Discontinued Operations

In December 2006 the Board of Directors decided to sell the Company’s interest in CJSC TRC “Photon” and in LLC TO “Accent” to local authorities. Both these companies provide broadcasting services.

As at December 31, 2006 both subsidiaries, LLC Accent and CJSC Photon, were classified as disposal group available for sale.

In April 2007 the Company sold its interest in CJSC TRC “Photon” (50.5%) for 25,000 (Note 36).

In May 2007 the Company sold its interest in LLC TO “Accent” (51%) for 11,000 (Note 36).

Condensed income statements of both subsidiaries for the year are presented below:

	LLC TO “Accent”		CJSC TRC “Photon”	
	2006	**2005**	**2006**	**2005**
Revenue	**1,283**	1,638	**11,670**	8,018
Expenses	**(4,280)**	(5,587)	**(18,038)**	(17,134)
Gross margin	**(2,997)**	(3,949)	**(6,368)**	(9,116)
Impairment of goodwill	**(6,350)**	0		0
Income Tax, including:	**685**	719	**1,398**	2,109
Current Income Tax	**0**	0	**(652)**	(55)
Deferred Tax benefit	**685**	719	**2,050**	2,164
Loss for the year from discontinued operations	**(8,662)**	(3,230)	**(4,970)**	(7,007)

Total loss from discontinued operations after tax for 2006 is 13,632 (2005 – 10,237).

The major classes of assets and liabilities of subsidiaries classified as available for sale as at December 31, 2006 are presented below:

	2006		
	LLC TO “Accent”	**CJSC TRC “Photon”**	**Total**
Assets			
Property, Plant and Equipment (Note 5)	–	2,071	2,071
Intangible Assets and goodwill(Note 6)	14,753	17,677	32,430
Long term advances given	1	88	89
Trade and other receivables	921	993	1,914
Other current assets	130	922	1,052
Cash and cash equivalents	2	1,120	1,122
Assets, classified as held for sale	**15,807**	**22,871**	**38,678**
Liabilities			
Deferred Income Tax liabilities	(1,412)	(4,241)	(5,653)
Account payables, accrued expenses and advances received	(1,286)	(843)	(2,129)
Liabilities, directly associated with assets classified as held for sale	**(2,698)**	**(5,084)**	**(7,782)**
Net liability directly associated with disposal group	**13,109**	**17,787**	**30,896**

(Amounts in thousands of Rubles unless stated otherwise)

8. Discontinued Operations (continued)

The net cash flows incurred by subsidiaries classified as held for sale:

	LLC TO "Accent"		CJSC TRC "Photon"	
	2005	**2006**	**2005**	**2006**
Net cash inflow/(outflow)	(5)	**(4)**	744	**(8)**

	2006	
Loss per share	**LLC TO "Accent"**	**CJSC TRC "Photon"**
Base, from discontinued operation	(0.002)	(0.001)
Diluted, from discontinued operation	(0.002)	(0.001)

9. Investments accounted for using the equity method

Investments accounted for using the equity method comprised the following at December 31:

		2006		2005, as restated	
Jointly controlled entities	**Activity**	**Voting shares**	**Carrying amount**	**Voting shares**	**Carrying amount**
CJSC "Volgograd GSM"	Cellular services (GSM)	**50%**	**506,104**	50%	530,740
CJSC "TeleRoss Kubanelektrosvyaz"	Telecommunication services	**50%**	**20,120**	50%	17,186
CJSC "Stavropol cellular communications"	Cellular services (AMPS-800 MHz)	**50%**	**-**	50%	10,937
CJSC "TeleRoss-Volgograd"	Local and intercity communication services	**50%**	**3,108**	50%	3,457
			529,332		562,320
Associates					
CJSC "ZanElCom"	Support of regional network IT systems	**45%**	**17**	45%	17
LLC "Yug-Giprosvyaz"	Project engineering	**24%**	**–**	24%	–
CJSC "IR Telekinocompaniya"	Commercial TV and radio broadcasting services	**24%**	**–**	24%	–
CJSC "Karachayevo-CherkesskTeleSot"	Cellular communications, GSM-900 MHz	**20%**	**227**	20%	2,115
CJSC "Kabardino-Balkar GSM"	Cellular communications, GSM-900 MHz	**20%**	–	20%	–
			244		2,132
Total			**529,576**		**564,452**

Gain (loss) on disposal of investments accounted for using the equity method is disclosed in Note 29.

Movement in investments accounted for using the equity method for the years ended December 31, 2006 and 2005 is presented below:

	2006	**2005, as restated**
Investments accounted for using the equity method as of January 1	**564,452**	**526,876**
Share of income (loss) net of income tax and dividends received	(24,896)	37,730
Disposal of associates	-	(154)
Provision for impairment	(9,980)	-
Investments accounted for using the equity method as of December 31	**529,576**	**564,452**

(Amounts in thousands of Rubles unless stated otherwise)

9. Investments accounted for using the equity method (continued)

In 2006 one of the Company’s jointly controlled entities went into bankruptcy proceedings. As a result, the Company recognized CJSC “Stavropol cellular communications” impairment loss in the amount of 9,980 which is included in Share of results of investments accounted for using the equity method of the Consolidated Income statement for the year 2006.

Dividends received in 2006 amounted to 130,386 (2005 – 74,263).

Company has investments in the following associates with negative net assets as of December 31:

Company	Activity	Voting share	2006	2005 as restated
LLC “Yug-Giprosvyaz”	Project engineering	20%	**(5 104)**	(16 713)
CJSC “IR Telekinocompaniya”	Commercial TV and radio broadcasting services	24%	**(460)**	(460)
CJSC “Kabardino-Balkar GSM”	Cellular communications, GSM-900 MHz	24%	**(136)**	(2 521)

The carrying value of investments accounted for using the equity method shown in these consolidated financial statements is equivalent to the Company's share in the net assets of these companies, except for investments in LLC “Yug-Giprosvyaz”, CJSC “IR Telekinocompaniya” and CJSC “Kabardino-Balkar GSM”. For these associates the carrying amounts of the investments were reduced to zero considering that these associates reported accumulated losses exceeding the cost of the respective investments.

The following table illustrates summarized financial information of the jointly controlled entities and associates:

Entities	Voting shares	Assets	Liabilities	Revenue	Net income/(loss)
2006					
Jointly controlled entities					
CJSC “Stavropol cellular communications”	**50%**	**22,126**	**(2,165)**	**2,336**	**(1,873)**
OJSC “TeleRoss Kubanelektrosvyaz”	**50%**	**43,353**	**(3,111)**	**52,423**	**15,822**
CJSC “Volgograd GSM”	**50%**	**1,990,875**	**(978,668)**	**1,336,037**	**201,546**
CJSC “TeleRoss-Volgograd”	**50%**	**6,969**	**(753)**	**2,383**	**(700)**
Associates					
LLC “Yug-Giprosvyaz”	**24%**	**78,915,**	**(100,181)**	**125,676**	**48,370**
CJSC “Karachayevo-CherkesskTeleSot”	**20%**	**32,844**	**(31,809)**	**457**	**(9,542)**
Other		**25,754**	**(28,316)**	**244**	**(882)**
2005					
Jointly controlled entities					
CJSC “Stavropol cellular communications”	50%	24,995	(3,162)	6,241	(4,438)
OJSC “TeleRoss Kubanelektrosvyaz”	50%	35,031	(659)	41,770	12,708
CJSC “Volgograd GSM”	50%	1,930,551	(869,070)	1,139,237	230,952
CJSC “TeleRoss-Volgograd”	50%	7,635	(721)	3,826	15
Associates					
LLC “Yug-Giprosvyaz”	24%	224,102	(226,747)	200,361	(18,328)
CJSC “Karachayevo-CherkesskTeleSot”	20%	31,719	(21,144)	33,197	(19,898)
Other		20,080	(33,175)	8,446	(5,773)

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

(Amounts in thousands of Rubles unless stated otherwise)

10. Long-Term Investments

Long-term investments comprised the following as of December 31:

	2006		2005	
Company	**Ownership interest**	**Carrying value**	**Ownership interest**	**Carrying value**
Long-term investments available for sale				
OJSC "BETO"	**0.15%**	**713**	0.15%	713
OJSC "Informatsionnye Tehnologii Svyazy" (OJSC "Svyazintech")	**11.00%**	**12,591**	11.00%	12,591
OJSC "Sberbank"	–	**–**	2%	5,401
CJSC "RusleasingSvyaz"	**3.65%**	**1,424**	3.65%	1,424
Other	–	**8,672**	–	1,990
Provision for impairment		**(8,179)**		(2,287)
Total		**15,221**		**19,832**

The Company's management believes that carrying amounts of investments available for sale approximates to their fair values.

Gain on sale of share in OJSC "Sberbank" in the amount of 4,534 was included in "Gain (loss) on investments" of Consolidated Income Statement for the year 2006. Revaluation of shares in OJSC "Sberbank RF" initially recognized in equity in the amount 5,395 was transferred to the income statement at the date of disposal and included into Gain (loss) on investments for the year 2006.

In the year 2006 OJSC "KrasnodarBank" and OJSC "Concern BETO", were announced bankrupt. Respectively, as of December 31, 2006, the Company has written off its shares in OJSC "KrasnodarBank" in the amount of 101,363 and OJSC "Concern BETO" in the amount of 745 using previously created provision for impairment.

11. Long-Term Accounts Receivable and Other Assets

Long-term accounts receivable and other assets comprised the following as of December 31:

	2006	2005
VAT receivable	**169,967**	359,886
Long-term loans given to employees	**5,640**	11,424
Long-term loans given to legal entities	**2,860**	3,897
Other	**25,575**	119,857
Total	**204,042**	495,064

Long-term loans given to employees are accounted at amortized cost using the effective interest rate of 17% as of December 31, 2006 (2005: 21%).

(Amounts in thousands of Rubles unless stated otherwise)

12. Long-Term Advances Given

Long-term advances given to suppliers of equipment comprised the following as of December 31:

	2006	2005
Advances given for capital construction	**48,189**	98,768
Acquisition and implementation of software Oracle E-Business Suite (see Note 6)	**108,070**	113,520
Total	**156,259**	212,288

13. Inventories

Inventories comprised the following as of December 31:

	2006	2005
Cable, materials and spare parts for telecommunication equipment	**300,230**	297,914
Finished goods and goods for resale	**66,872**	91,675
Construction materials	**79,083**	103,856
Instruments, special cloths, inventory	**83,640**	94,576
Other inventories	**265,620**	279,199
Provision for inventory obsolescence	**(17,066)**	(7,090)
Total	**778,379**	860,130

The amount of write-down of inventories recognized as an expense is 1,140,647 (2005 – 998,479). This expense is included into Materials, repairs and maintenance, utilities of Consolidated Income Statements.

Provision for inventory obsolescence is presented in other operating expenses in the Consolidated Income Statement.

There were no pledged inventory as of December 31, 2006 and December 31, 2005.

14. Trade and Other Receivables

Accounts receivable comprised the following as of December 31:

	2006	2005 as restated
Trade receivables – telecommunication services	**900,995**	1,359,429
Trade receivables – other	**93,762**	140,546
Provision for impairment	**(292,414)**	(744,253)
Total	**702,343**	755,722

Trade Accounts receivable for telecommunication services were due from the following major customer groups as of December 31:

	2006	2005 as restated
Corporate customers	**348,454**	288,171
Residential customers	**347,067**	422,221
Government customers	**83,894**	95,178
Tariff compensation from the state budget	**121,580**	553,859
Total	**900,995**	1,359,429

(Amounts in thousands of Rubles unless stated otherwise)

14. Trade and Other Receivables (continued)

The Company invoices its governmental and corporate customers on a monthly basis. The Company sends monthly payment requests and substantially relies upon these customers to remit payments based on the received payment requests. All customer payments are based upon tariffs, denominated in Rubles, in effect at the time the calls are made.

Receivables resulted from tariff compensation from the state budget related to granting privileges to certain categories of subscribers account for 13.8% of the total amount of trade accounts receivable as of December 31, 2006 (40.7 % as of December 31, 2005). These accounts receivable emerged before January 2005, when Article 47 of Federal Law No. 126-FZ, dated July 7, 2003, "On Telecommunications" came into force. This Article changed the procedure for granting privileges to individuals in the provision of services of telecommunication organizations. Before January 2005, telecommunication services users eligible for privileges paid 50% of their cost by themselves, and 50% was subject to compensation from the state budget.

In 2005, the budgets did not provide for financing the outstanding receivables resulted from tariff compensation from the state budget related to granting privileges to certain categories of subscribers in the previous periods.

In 2006, as a result of claims and actions, the arbitration courts satisfied 432,279 from the federal budget to cover the Company's accounts receivable resulting from services provided earlier to privileged categories of customers.

The abovementioned accounts receivable on compensation from the state budget are doubtful, since they were not paid in accordance with contractual terms and are not secured by relevant guarantees. The Company will continue efforts to recover funds from the federal budget to compensate for this debt. However, taking into account the difficulties related to the recovery of such debts for the previous periods, the Company assessed the possibility of collection of debts on compensation for granting privileges to certain categories of subscribers in December 2006, and considering possibilities of debt recovery, created a provision for impairment of these receivables in the amount of 121,580 , which accounts for 100 % of the total amount of debt of the social security authorities as of December 31, 2006.

The following summarizes movement in the provision for impairment of trade and other receivables:

	2006	**2005 as restated**
Balance at January 1	**744,253**	474,238
Charge (recovery) for the year	**(400,451)**	294,183
Trade receivables written off	**(51,388)**	(24,168)
Balance at December 31	**292,414**	744,253

15. Prepaid Income Tax

Increase of income tax prepayment by 151,343 was due to following facts:

- the Company filed adjusted tax return in amount of 139,420 due to reconsideration of expenses deductible for tax purposes in the year 2003.
- increase of income tax advances paid in fourth quarter 2006 in comparison with fourth quarter 2005.

(Amounts in thousands of Rubles unless stated otherwise)

16. Other Current Assets

Other current assets comprised the following as of December 31:

	2006	2005
VAT receivable	**440,564**	804,300
Prepayments and advance payments	**117,120**	80,438
Deferred expenses	**115,867**	116,733
Other prepaid taxes	**12,445**	12,109
Settlements with personnel	**7,706**	5,616
Other receivables and current assets	**155,494**	137,999
Provision for impairment	**(4,162)**	–
Total	**845,034**	1,157,195

Decrease of other current assets by 312,161 was mainly due to VAT receivable decrease by 363,736.

Federal Law No. 119-FZ dated July 22, 2005, introduced amendments in chapter 21 of the Tax Code effective January 1, 2006. According to these amended provisions VAT taxable base on sales of goods (rendering of services) is determined at the earliest of:

- date of goods (services) shipment (rendering);
- date of payment (partial payment) for subsequent delivery of goods (services), transfer of rights of ownership.

17. Cash and Cash Equivalents

Cash and cash equivalents comprise the following as of December 31:

	2006	2005
Ruble denominated cash in hand and balances with banks	**331,126**	632,281
Letters of credit	**–**	139,801
Total	**331,126**	772,082

In 2006 letters of credit expired and cash in the amount of 139,801 was transferred to the Company's bank account.

Cash in foreign currency comprised 20 as of December 31, 2006 (2005 - 468) and is represented by in US dollars.

18. Significant Non-Cash Transactions

In 2006 the Company received cars in accordance with finance lease agreement in the amount of 6,522 (2005 – telecommunication equipment 976,490).

Included in revenues are non-cash transactions amounting to 3,501,239 (2005 – 1,839,768). These transactions represent mainly mutual offset of the balances with the same customer or supplier incurred in the course of normal operating activities.

In 2006 Company paid to its suppliers by means of issuing promissory notes in the amount of 150,073 (2005 – 1,204,631).

(Amounts in thousands of Rubles unless stated otherwise)

18. Significant Non-Cash Transactions (continued)

In 2006 Company received telecommunication equipment contributions in the amount of 9,697 (2005 – 25,303).

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

19. Equity

The total number of outstanding shares comprised the following as of December 31:

	Number of shares authorized (thousands)	Nominal amount	Carrying amount
As of December 31, 2004	**3,932,665**	**1,297,779**	**3,039,255**
Preference	972,152	320,810	751,302
Ordinary	2,960,513	976,969	2,287,953
As of December 31, 2005	**3,932,665**	**1,297,779**	**3,039,255**
Preference	972,152	320,810	751,302
Ordinary	2,960,513	976,969	2,287,953
As of December 31, 2006	**3,932,665**	**1,297,779**	**3,039,255**

The ordinary and preference shares have a nominal value of 0.33 rubles per share. All authorized shares have been issued and fully paid.

The difference between the total par amount and the total carrying amount of share capital represents the effects of inflation accumulated through January 1, 2003.

The ordinary shareholders are entitled to one vote per share.

Preference shares give the holders the right to participate in general shareholders’ meetings without voting rights except in instances where decisions are made in relation to changes and amendments to the Company’s charter which restrict the rights of preference shareholders. The preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share of 10% of net income for the year determined under the Russian accounting principles. If the Company fails to pay dividends, or has no profits in any year, the preferred shareholders have the right to vote in the general shareholders’ meeting. Owners of preference shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay partially) dividends on preferred shares has been taken. The annual amount of dividends on preference shares may not be less than the dividends on ordinary shares. The owners of preference shares participate in earnings along with ordinary shareholders. Accordingly, the Company’s preference shares are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 31).

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

Distributable earnings of the parent company are limited to its retained earnings, as mandated by the statutory accounting rules. Statutory retained earnings of the Company as of December 31, 2006 and 2005 amounted to 6,783,433 and 5,604,701, respectively.

(Amounts in thousands of Rubles unless stated otherwise)

19. Equity (continued)

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Company from net income for the year as reported in the Company's Russian statutory financial statements. PJSC "SouthernTelecom" reported net income of 1,184,442 and 305,203 in its statutory financial statements in 2006 and 2005, respectively.

Dividends were declared in 2006 in respect of 2005 to holders of ordinary shares and preference shares of 0.01031 rubles per ordinary share (2005: 0.00934 rubles per ordinary share) and 0.031395 rubles per preference share (2005: 0.02847 rubles per preference share), respectively. Total amount of dividends declared is presented in Note 32.

In February 1998, the Company placed Level 1 American Depository Receipts (ADR). Each depository receipt is equal to 50 ordinary shares of the Company

The following table represents ADR registration for 2004-2006:

	ADR (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary Shares, %	Charter Capital, %
December 31, 2004	**1,581,380**	**79,069,000**	**2,67%**	**2,01%**
Increase 2005	1,245,299	62,264,950	2,1%	1,58%
December 31, 2005	**2,826,679**	**141,333,950**	**4,77%**	**3,59%**
Increase 2006	830,938	41,546,900	1,40%	1,06%
December 31, 2006	**3,657,617**	**182,880,850**	**6,17%**	**4,65%**

Currently ADR are traded on the following stock markets:

Stock market	CUSIP(WKN)	ADR ticker	ISIN
Over-the-counter(OTC) Market (USA)	843899105	STJSY	S1843899105
Frankfurt Stock Exchange(FSE)	912640	KUE.FRA	US8438991056
Berlin Stock Exchange (BerSE)	912640	KUE	US8438991056
NEWEX (Vienna, Austria)	912640	KUE	US8438991056

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

	Ordinary shares		Preference shares		
	Number (thousands)	%	Number (thousands)	%	Total
OJSC "Svyazinvest"	1,500,671	50.69%	–		1,500,671
Other legal entities	1,200,030	40.53%	759,011	78.08%	1,959,041
Individuals	259,812	8.78%	213,141	21,92%	472,953
Total	**2,960,513**	**100%**	**972,152**	**100%**	**3,932,665**

(Amounts in thousands of Rubles unless stated otherwise)

20. Borrowings

As of December 31 borrowings comprised the following:

	Effective interest rate	Maturity date	2006	2005 as restated
Short-term borrowings				
Bank loans (Rubles)	6.5% - 9.75%	2007	**252,388**	645,998
Vendor financing (Rubles)	6% - 10%	2007	**14,875**	–
Promissory notes (Rubles)	10.75% – 14.21%	2007	**600,000**	925,138
Interest accrued		2007	**314,134**	595,542
Total short-term borrowings			**1,181,397**	2,166,678
Long–term borrowings				
Bank loans (Rubles)	9.5-12%	2007-2014	**2,695,655**	6,650,478
Bank loans (US dollars)	Libor+ (4.4 - 5.6%)	2009-2013	**4,607,943**	–
Total Bank Loans			**7,303,598**	6,650,478
Bonds (Rubles)	9.82% - 13.94%	2007-2009	**9,573,085**	11,417,261
Vendor financing (Euro)	5.95% - 11.22%	2007-2011	**80,517**	136,235
Promissory notes (US Dollars)			**–**	218,602
Promissory notes (Rubles)	9.23% - 12.2%	2007-2008	**1,005,000**	183,860
Total promissory notes			**1,005,000**	402,462
Other borrowings			**49,114**	50,356
Less: Current portion of long-term borrowings			**(11,679,953)**	**(10,202,076)**
Total long-term part of borrowings			**6,331,361**	**8,454,716**

As of December 31, 2006, borrowings had the following maturity schedule:

Maturity date	Bank loans	Bonds	Vendor financing	Promissory notes	Other borrowings	Total
2007	5,500,129	6,440,086	95,629	817,644	7,864	**12,861,351**
2008	1,867,941	763,393	–	825,000	–	**3,456,334**
2009	108,152	2,509,320	–	–	–	**2,617,472**
2010	108,152	–	–	–	–	**108,152**
2011	108,152	–	–	–	24,072	**132,224**
After 2011		–	–	–	17,179	**17,179**
Total	**7,692,526**	**9,712,798**	**95,629**	**1,642,644**	**49,115**	**19,192,712**

As of December 31, 2006 bank loans in amount of 6,762,943 (2005 – 7,777,874) are guaranteed by collateral of property, plant and equipment with the carrying value of 6,323,931 (2005 – 7,492,753) (Note 5).

(Amounts in thousands of Rubles unless stated otherwise)

20. Borrowings (continued)

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2006	**2005 as restated**
Russian Rubles	**13,827,152**	19,476,718
US dollars	**4,744,204**	218,602
Euro	**621,356**	1,128,150
Total	**19,192,712**	20,823,470

Short-term borrowings

Bank loans

UgBank OJSC

In 2006 the Company raised a number of short-term loans denominated in Russian rubles. The loans bear interest from 6.5% to 12.3%. As of December 31, 2006, the amount outstanding was 100,196. Loans are not secured.

OJSC VneshTorgBank

In 2006 the Company raised a short-term loan denominated in Russian rubles. The loan bears interest of 9.75%. As of December 31, 2006, the amount outstanding was 130,000. The loan is not secured.

Promissory Notes

In 2006 the Company issued promissory notes to OJSC "Megregionalny Kommerchesky Bank Razvitiya Svyazi i Informatiki". The promissory notes mature in 2007. Amount of promissory notes outstanding as of December 31, 2006 was equal to 602,347 (including interest accrued in the amount of 2,347).

Long-term borrowings

Bank Loans

OJSC "Sberbank"

In 2003-2006 the Company raised a number of long-term loans denominated in Russian rubles amounting to 1,760,000. The loans bear interest from 9.5% to 10.5%. The loans mature in 2008. As of December 31, 2006, the amounts outstanding were equal to 1,760,000 and presented in long-term borrowings. The loans are secured with property, plant and equipment valued at 2,087,567.

OJSC Vneshtorgbank

In 2005 the Company raised a long-term loan denominated in Russian rubles amounting to 95,000. The loan bears interest at 12%. The loan matures in 2007. Amount outstanding as of December 31, 2006 is 95,000 and presented as current portion of long-term borrowings. The loan is secured with property, plant and equipment valued at 112,675.

20. Borrowings (continued)

Long-term borrowings (continued)

Bank Loans (continued)

CJSC “International Moscow Bank”

In May 2006 the Company raised a long-term loan denominated in Russian rubles amounting to 300,000. The loan bears interest at 10.8%. The loan matures in November 2007. The amount of the loan outstanding as of December 31, 2006 is 300,000 and presented in current portion of long-term borrowings. The loan is secured with telecommunication equipment valued at 392,092.

Credit Suisse International

In 2006 the Company entered into two loan agreements with Credit Suisse International. Financing agreement in the amount of 50 mln. US dollars was signed in August 2006 and Guaranteed financing agreement in amount of 125 mln. US dollars was signed in September 2006.

Credit period for the first loan is 37 months, including grace period of 24 months. The loan bears interest at a rate which is an aggregate of Margin (5.60%) and LIBOR. The loan was obtained in order to refinance the Company’s debt. The loan is secured by equipment valued at 1,673,403 under pledge agreement.

Credit period for the second loan is 7 years, including grace period of 4 years. The loan bears interest at a rate which is an aggregate of Margin (4.40%) and LIBOR. The loan was obtained in order to refinance the Company’s debt. The loan is secured by bank guarantee under the agreement concluded between the Company and JSC “Vneshtorgbank”. In accordance with this agreement Company pays commission in the amount of 0.3% of the guaranteed amount on a quarterly basis. Bank guarantee is secured by equipment valued at 3,360,652 thousands Rubles (125,375 thousands US Dollars).

Amount outstanding under these loans as of December 31, 2006 is 4,607,943.

The loan agreements concluded between the Company and Credit Suisse International provide for certain covenants to be complied with by the Company at the end of each interim quarterly period. The covenants are defined on the basis of financial statements prepared under the Russian statutory accounting regulations.

- The Company’s ratio of “net debt” (an aggregate of long-term and short term borrowings less amount of cash) to “adjusted income” (aggregate amount of operating income, other operating income, amortization less the amount of other operating costs) for the three months period before the date of ratio calculation (“adjusted income” for previous quarter of the same financial year is not included to calculation) should not exceed 20:1;
- The Company’s ratio of “net debt” to equity should not exceed 2.5 to 1;
- As of March 31, June 30, September 30 and December 31 the Company’s ratio “adjusted income” to interest payable for the 3 month period preceding the relevant calculation date (but not including “adjusted income” and interest payable for the quarter preceding such period of the same financial year) shall be at least 2.5 to 1;

In fourth quarter of the year 2006 the Company has experienced debt covenants violation, which, if not waived, could result in the bank claim for immediate and full repayment of these loans. In June 2007 the Company’s management has obtained a waiver from Credit Suisse International; however, due to the fact that this waiver was not obtained before the balance sheet date the outstanding liability under this loan was classified as short-term borrowings as at December 31, 2006.

20. Borrowings (continued)

Long-term borrowings (continued)

Bank Loans (continued)

Ministry of Finance of Russian Federation

In 1995-1996, the Ministry of Finance of the Russian Federation provided long-term financing to the Company to purchase telecommunications equipment from various foreign vendors. Vnesheconombank acted as the agent on behalf of the Government of Russian Federation. The loans are denominated in EURO. In July 2005 the Company received a claim from the Ministry of Finance of the Russian Federation for immediate repayment of outstanding amount of 973,609 (28,200,871 EURO) overdue to the bank as at June 30, 2005.

In December 2006 at the stage of legal proceedings the Company signed an amicable agreement with Ministry of Finance. On March 5, 2007 terms of the amicable agreement were approved by Arbitrary Court of Krasnodar region. The amicable agreement came into force on December 27, 2006 and stipulates a restructuring of the Company's liability: penalty interest accrued for untimely payments in the amount of 329,787 (9,525,995 EURO) is forgiven and the principal amount will be paid in equal annual installments during a period from December 27, 2006 to January 1, 2012. Interest on restructured debt is payable at 2% per annum.

As at December 31, 2006 the outstanding amount of the debt to the Ministry of Finance was accounted for at amortized cost using effective interest rate of 11.08% and amounted to 540,655, including short term part in the amount of 108,046. The liability is secured by property, plant and equipment valued at 1,260,214.

The difference between carrying amount of the debt at the date of restructuring and its amortized cost net of related expenses was recognized as a gain in the amount of 21,189 and included into Interest expense of the Consolidated Income Statement (Note 28).

Bonds

Bonds (Series 01)

On September 18, 2003 the Company issued 1,500 thousand non-convertible interest-bearing bonds, Series 01, par value of 1,000 Rubles each. The bonds mature in three years from the date of issue (September 2006) and provides semiannual coupons. The coupon interest rate is 14.24% per annum. On September 14, 2006 the bonds were repaid in full.

Bonds (Series 02)

On February 11, 2004 the Company issued 1,500 thousand non-convertible interest-bearing bonds, Series 02, par value of 1,000 Rubles each. The bonds mature in 3 years from the date of issue and have 6 semiannual coupons. The interest rate under the first and second coupons was set at 9.25% per annum, on the third and fourth coupons - 12% per annum, on the fifth and sixth coupons – 10.5% per annum. These bonds had two options of early redemption at par – in February 2005 and February 2006. In February 2005 and February 20006 bondholders exercised the right of early redemption in the amount of 1,092,657 and 217,596, respectively, and these bonds were placed at the secondary market at par for the same amount. These bonds were fully redeemed in February 2007 (see Note 36). The outstanding liability on these bonds was classified as the current portion of long-term borrowings as of December 31, 2006.

20. Borrowings (continued)

Bonds (continued)

Bonds (Series 03)

On October 6, 2004 the Company issued 3,500 thousand non-convertible interest-bearing bonds, Series 03, par value of 1,000 Rubles each. Bonds mature in five years from the date of issue and have 10 semiannual coupons. The interest rate under first three coupons is 12,3 % per annum, interest rate for fourth, fifth and sixth coupons set at 10.9% per annum, interest rates under next coupons will be set 10 days prior to payment of the coupon.

The bond issue has two options of early redemption at par value in April 2006 and in October 2007. In April 2006 bondholders did not exercise their right of early redemption. As there is a right of early redemption of bonds in 2007 the outstanding liability was classified as current portion of long-term borrowings as at December 31, 2006.

Bonds (Series 04)

In December, 2005 the Company issued 5,000 thousand non-convertible interest-bearing bonds Series 04, par value of 1,000 Rubles each. Bonds mature in four years from the date of issue and have 16 quarterly coupons. The interest rate under first four coupons is set at 10.5%, and 10% per annum for the rest of the coupons. In accordance with the terms of the offering, in December 2006 the Company redeemed 500,000 of these bonds. The rest of the obligation is to be settled in several installments during the period from 2007 to 2009. Respectively, the bonds in amount 1,250,000 are included in to current portion of long-term borrowings and the remaining part of these bonds obligations is included into long-term borrowings as of December 31, 2006.

The bonds do not provide any put options.

<u>Vendors Financing</u>

In 1995 the Company entered into agreement with Siemens AG under which it delivered telecommunication equipment to the Company. In 2003 the right to claim this liability was transferred to OJSC Alfa Bank. In accordance with the agreement the liability matures in 2007. Amounts payable under this agreement are denominated in Euro. The agreements bear interest at 5.95% per annum. Amount outstanding as of December 31, 2006 is 10,670 and classified as current portion of long-term borrowings.

In 2006 the Company entered into agreement with CJSC "ELSIS-SPb" under which it delivered telecommunication equipment to the Company. Amounts payable under this agreement are denominated in Euro and is payable in 2007. Amount outstanding as of December 31, 2006 is 69,901 and classified as current portion of long-term borrowings. The interest is accrued at effective interest rate calculated as weighted average of interest rates on Company's borrowings obtained in respective period that approximates 11.08%.

<u>Promissory notes</u>

In 2005 the Company issued non interest bearing promissory notes to OJSC "Vneshtorgbank". These promissory notes mature in 2007. Amount outstanding as at December 31, 2006 is 180,000 and is classified as current portion of long-term borrowings. Effective interest rate is 12.2% per annum.

In 2006 the Company issued non interest bearing promissory notes to OJSC "Vneshtorgbank". These promissory notes mature in 2008. Amount outstanding as at December 31, 2006 is 825,000 and is classified as long-term borrowings. Effective interest rate is 9.23-9.77% per annum.

(Amounts in thousands of Rubles unless stated otherwise)

21. Finance Lease Obligations

The Company entered into various finance lease agreements for telecommunication equipment. These leases have no terms of renewal, purchase options or escalation clauses. The title on the equipment is transferred to the Company at the end of the lease. Future minimum lease payments and their present values of were as follows as of December 31:

	2006		2005, as restated	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion	1,198,623	811,613	540,160	993,973
1 to 5 years	1,522,282	1,229,449	2,676,970	2,034,909
More then 5 years	–	–	–	–
Total minimum lease payments	**2,720,905**	**2,041,062**	4,217,130	3,028,882
Less amounts representing finance charges	(679,843)	–	(1,188,248)	–
Present value of minimum lease payments	**2,041,062**	**2,041,062**	3,028,882	3,028,882

In 2006 and 2005, the Company's primary lessor was OJSC "RTC-Leasing". In 2006 the effective interest rate on lease liabilities ranged from 20 % to 25% (2005: 20% to 25%).

OJSC "RTC-Leasing" purchases telecommunication equipment from domestic and foreign suppliers and provides such equipment to the Company under finance lease agreements. The Company's obligations under finance leases to OJSC "RTC-Leasing" as of December 31, 2006 comprised 2,676,103 (2005: 4,202,602), including 2,034,370 principal amount (2005: 3,017,725) and 641,733 interest payable (2005: 1,184,877).

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

As of December 31, 2006 finance lease obligations denominated in US Dollars and payable in USD and Euro comprised 257 and nil respectively (2005: nil and 7 169).

22. Accounts Payable, Accrued Expenses and Advances Received

Accounts payable, accrued expenses and advances received comprised the following as of December 31:

	2006	2005 as restated
Trade accounts payable	**689,768**	510,067
Advances received from subscribers	**416,650**	361,175
Accounts payable to equipment suppliers and constructors	**835,909**	1,396,781
Salaries and wages	**744,635**	743,979
Accrued expenses on for consulting services	**126,748**	–
Accrued expenses on services from interconnected operators (Note 33)	**150,000**	–
Other accounts payable	**234,454**	167,509
Total	**3,198,164**	3,179,511

Accounts payable to equipment suppliers and constructors in the amount of 0 and 1,135 included into trade payables as of December 31, 2006 and 2005, respectively, are denominated in foreign currency, primarily, US Dollars.

Other accounts payable include also payable to Non-commercial Partnership (see Note 34).

(Amounts in thousands of Rubles unless stated otherwise)

23. Other Taxes Payable

Taxes payable, other than income tax, comprised the following as of December 31:

	2006	2005 as restated
Value added tax	**71,609**	278,612
Property tax	**178,134**	172,533
Personal income tax	**39,790**	35,309
Unified social tax	**89,203**	64,648
Other taxes	**6,771**	30,302
Total	**385,507**	581,404

Included in value added tax payable are 18,654 (2005: 162,341) of value added tax that is payable to the tax authorities when the underlying receivable is recovered or written off.

24. Pensions and Other Post-Employment Benefits

In addition to statutory pension benefits, the Company also contributes to post-employment benefit plan, which covers most of its employees.

The defined benefit pension plan provides old age retirement pension and disability pension. The plans provides for payment of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men. The benefits are based on a formula specific to each branch of the Company. According to the formula the benefits depend on a number of parameters, including the relative pay of participants and their length of service in the Company at retirement. The benefits do not vest until and are subject to the employee retiring from the Company on or after the above-mentioned ages, except for employees redundant less than two year before achievement the statutory conditions guarantee pension payments.

Non-government pension fund Telecom-Soyuz, which is related to the Company (Note 34), maintains the defined benefit pension plan. The Company funds the pension plan on a pay-as-you-go basis upon agreement with the pension fund.

The Company further provides other long-term employee benefits of a defined benefit nature such are lump-sum payments upon retirement, death, disability and jubilees to its active and former employees.

Additionally the Company provides financial support of a defined benefit nature to its old age and disabled pensioners.

As of December 31, 2006 there were 31,017 working employees participating to the defined benefit pension plan of the Company and 9,080 pensioners eligible to the other post-employment benefit plans provided by the Company (as of December 31, 2005 – 37,867 and 7,695, respectively).

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

	2006	2005
Present value of defined benefit obligation	**1,908,338**	1,982,837
Fair value of plan assets	**–**	(47,469)
Present value of unfunded obligation	**1,908,338**	1,935,368
Unrecognized past service cost	**(43,146)**	(402,107)
Unrecognized actuarial gains /(losses)	**(582,227)**	(665,209)
Net pension liability in the balance sheet	**1,282,965**	868,052

(Amounts in thousands of Rubles unless stated otherwise)

24. Pensions and Other Post-Employment Benefits (continued)

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

	2006	2005
Current service cost	**92,866**	94,301
Interest cost on benefit obligation	**136,677**	146,573
Expected return on plan assets	**(1,673)**	(24,107)
Net actuarial losses/(gain) recognized in the year	**51,881**	24,415
Past service cost	**195,831**	–
Amortization of PSC	**65,735**	46,777
Losses/(gains) on curtailments and settlements	**58,592**	
Net expense for the defined benefit plan	**599,909**	287,959
Actual return on plan assets	**–**	5,911

Changes in the present value of the defined benefit obligation in 2006 and 2005 were as follows:

	2006	2005
Defined benefit obligation at January 1	**1,982,837**	1,597,334
Interest cost on benefit obligation	**136,677**	146,573
Current service cost	**92,866**	94,301
Past service cost	**(97,395)**	189,579
Benefits paid	**(51,167)**	(41,959)
Liabilities extinguished on settlements	**(181,295)**	(270,534)
Actuarial losses on obligation	**25,815**	267,543
Defined benefit obligation at December 31	**1,908,338**	1,982,837

Changes in the fair value of plan assets in during 2006 and 2005 were as follows:

	2006	2005
Fair value of plan assets at January 1	**47,469**	204,573
Expected return	**1,673**	24,107
Actuarial gains/(losses)	**(1,673)**	(18,196)
Benefits paid	**(51,167)**	(41,959)
Assets distributed on settlement	**(181,295)**	(270,534)
Contributions by employer	**184,993**	149,478
Fair value of plan assets at December 31	**–**	47,469

The Company expects to contribute 125,000 to its defined benefit pension plans in 2007.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2006	2005
Russian equities	**–**	1.5%
Russian corporate bonds	**–**	22.7%
Russian government bonds	**–**	39.0%
Promissory notes	**–**	33.1%
Other assets	**–**	3.7%

(Amounts in thousands of Rubles unless stated otherwise)

24. Pensions and Other Post-Employment Benefits (continued)

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

	2006	2005
Discount rate	**7%**	7%
Expected return on plan assets	**8.5%**	9.69%
Future salary increases	**9.2%**	8.15%
Relative pay increase (career progression)	**1%**	1%
Rate used for calculation of annuity value	**6%**	6%
Increase in financial support benefits	**5%**	5%
Staff turnover	**7%**	5%
Mortality tables (source of information)	**USSR 1985/86**	USSR 1985/86

The overall expected rate of return on assets as at December 31, 2006 and 2005 is determined based on the market prices prevailing on these dates and the structure of the plan assets portfolio. There has been change in the expected return on plan assets due some decrease in return on corporate promissory notes and decrease in their share in total plan assets in 2006.

Amounts for the current and previous four periods are as follows:

	2006	2005	2004	2003	2002
Present value of defined benefit obligation	**1,908,338**	1,982,837	1,597,334	1,168,462	981,563
Plan assets	**–**	47,469	204,573	146,347	82,602
(Deficit)/surplus	**1,908,338**	1,935,368	1,392,761	1,022,115	898,961
Experience adjustments on plan liabilities	**66,580**	113,061	(418,648)	9,844	
Experience adjustments on plan assets	**(1,673)**	(18,196)	(712)	5,631	

The amount of experience adjustments is included into actuarial gains and losses and represents effects of differences between the previous actuarial assumptions and what has actually occurred. Experience adjustments on plan liabilities in the year 2006 and prior periods were caused primarily by non-recurring considerable excess of actual number of dismissed employees, as well as of the change in the amount of benefits set out in the terms of the plan, over initially projected changes in respective parameters in the long-term perspective.

25. Provision

During 2006 movements in current provisions were as follows:

	Tax provisions (Note 33)	Provision for claim from CJSC “Westelcom” (Note 33)	Guarantees (Note 33)	Total
Balance at December 31, 2005, as restated	**–**		**19,540**	**19,540**
Additional provisions	118,220	43,705	–	161,925
Provision reclassified from long-term part	–		19,060	19,060
Provision amortized	–		(19,540)	(19,540)
Balance at December 31, 2006	**118,220**	**43,705**	**19,060**	**180,985**

(Amounts in thousands of Rubles unless stated otherwise)

25. Provision (continued)

During 2006, movements in long-term provisions were as follows:

	Guarantees (Note 33)
Balance at December 31, 2005, as restated	36,594
Provision reclassified to current part	(19,060)
Balance at December 31, 2006	**17,534**

26. Revenue

Revenue for the year ended December 31 comprised the following:

By revenue type	2006	2005 as rested
Long distance calls – domestic	–	3,213,533
Long distance calls – international	–	1,154,243
Intrazone telephone calls	**2,546,570**	1,988,122
Local telephone calls	**7,375,207**	6,499,392
Installation and connection fees	**479,913**	665,100
Documentary services	**56,361**	53,013
Cellular services	**4,982**	6,592
Radio and TV broadcasting	**274,778**	204,113
Data transfer and telemetric services	**449,742**	156,416
New services (Internet, ISDN, ADSL, IP-telephony)	**1,547,315**	1,458,933
Rent of telephone channels	**427,708**	854,980
Services to national operators	**2,910,540**	1,206,276
Fees on assistance services	**720,684**	–
Other telecommunication services	**574,964**	433,648
Other revenues	**590,299**	869,930
Total	**17,959,063**	18,764,291

Following requirements of the Federal Law “On Communications”, new regulations became effective starting January 1, 2006. These regulations led to significant changes in rendering intrazone, domestic and international telephone services.

Starting January 1, 2006 domestic and international long-distance telephone services are provided only by operators with respective licenses. According to the Company’s license terms it ceased provision of domestic and international long distance services and continued provision of intrazone telephone services.

In 2005 the Company did not present revenues from intrazone telephone services separately as no separate tariffs were approved for this type of services. In 2005 revenue from intrazone services in amount of 1,988,122 were included in revenue from domestic long-distance calls.

The Company identifies revenue by the following major customer groups for the years ended December 31:

Customer groups	2006	2005 as restated
Residential customers	**9,024,040**	10,596,451
Corporate customers	**7,427,896**	6,711,172
Government customers	**1,507,127**	1,456,668
Total	**17,959,063**	18,764,291

(Amounts in thousands of Rubles unless stated otherwise)

27. Other Operating Expenses

Other expenses for the years ended December 31 comprised the following:

	2006	2005
Universal service fund payments	**167,473**	137,237
Fire and other security services	**248,053**	253,243
Travel and representative expenses	**57,440**	48,290
Transportation services	**47,240**	53,122
Post services	**10,094**	9,399
Education expenses	**22,069**	32,267
Costs of goods sold	**73,914**	92,186
Rent of premises	**203,608**	186,541
Audit and consulting fees	**48,602**	134,538
Advertising expenses	**58,553**	59,450
Insurance of property	**39,503**	90,006
Non-commercial partnership (Note 34)	**113,000**	122,930
Member fees, charity contribution, payments to labor unions	**34,736**	89,262
Provision for tax penalties and fees	**118,220**	–
Agency agreements' expenses	**122,254**	63,841
Provision for claim from Westelcom	**43,705**	–
Other expenses	**491,364**	704,448
Total	**1,899,828**	2,076,760

Other expenses include primarily provision for impairment of other current assets, expenses related to social expenditures, billing and cash collection services, civil defense, cost of documentary, other telecommunication services expenses, representative expenses and other operating expenses.

28. Interest Expense

Interest expense for the years ended December 31 is presented net of interest income and other finance gains and comprised the following:

	2006	2005
Interest income	**(7,608)**	(13,126)
Interest expense on loans, promissory notes, bonds	**1,776,689**	2,214,510
Interest expense on finance leases	**543,212**	647,412
Interest expense on vendor financing	**1,562**	17,533
Gain on restructuring of loan from Vnesheconombank	**(21,189)**	–
Other finance loss	**502**	–
Total	**2,293,168**	2,866,329

29. Gains (loss) on Investments

Gains (loss) on investments for the years ended December 31 comprised the following:

	2006	2005
Loss on sale of CJSC "CMTO"	–	(6,063)
Gain on sale of OJSC "Stavropolskoe commercheskoe televidenie"	–	39
Gain on sale of share in OJSC "Sberbank"	**9,929**	–
Gain (loss) on sale of other investments	**179**	(1)
Loss on impairment of investments	–	(25,589)
Dividend income	**2,938**	1,968
Total	**13,046**	(29,646)

(Amounts in thousands of Rubles unless stated otherwise)

29. Gains (loss) on Investments (continued)

Gain from revaluation of financial investments available for sales recognized in the Consolidated Income statement upon sale of shares in OJSC “Sberbank” in the year 2006 amounted to 5,395 (2005– 0) and is included in the line “Gain on sale of share in OJSC “Sberbank” for the year 2006.

30. Income Tax

Income Tax, for the years ended December 31 comprised the following:

	2006	2005 as restated
Income tax expense – current	**222,563**	12,022
Deferred tax charge (benefit)	**207,182**	(75,565)
Income tax expense (benefit)	**429,745**	(63,543)

Income (loss) before tax for financial reporting purposes is reconciled to tax expense as follows:

	2006	2005 as restated
Accounting profit (loss) before tax from continuing operations	**790,376**	**(1,003,048)**
Loss before tax from discontinued operation	**(15,715)**	(13,065)
Accounting profit (loss) before income tax	**774,661**	(1,016,113)
Statutory income tax rate	**24%**	24%
Theoretical tax charge (benefit) at statutory income tax rate 24 %	**(185,918)**	243,867
Non-deductible expenses and other permanent differences	**(321,019)**	(511,252)
Non-taxable income	**79,274**	333,756
At the effective income tax rate	**(427,663)**	**66,371**
Income tax expense reported in the consolidated income statement	**(429,745)**	63,543
Income tax attributable to discontinued operations	**2,082**	2,828

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

	December 31, 2004, as restated	Origination and reversal of temporary differences, as restated	Subsidiaries acquisition, as restated	December 31, 2005, as restated	Origination and reversal of temporary differences	Disposal group	December 31, 2006
Deferred tax assets:							
Accounts payable and accrued expenses	**37,602**	112,121		**149,723**	(54,303)	–	**95,420**
Pension liability	–	131,140		**131,140**	34,544	–	**165,684**
Accounts receivable	**81,948**	(29,824)	(119)	**52,005**	(9,390)	–	**42,615**
Deferred revenue	**114,079**	(193)		**113,886**	(27,913)	–	**85,973**
Other	**1,563**	(1,141)		**422**	(422)	–	–
Deferred tax asset, total	**235,192**	**212,103**	**(119)**	**447,176**	**(57,484)**	–	**389,692**
Deferred tax liabilities:							
Property, plant and equipment	**(759,184)**	53,730	8,274	**(697,180)**	(45,184)	–	**(742,364)**
Intangible assets	**(28,755)**	(28,466)		**(57,221)**	(131,566)	5,652	**(183,135)**
Investments	–	(4,853)		**(4,853)**	(47,180)	–	**(52,033)**
Faire value of investments	**(46,574)**	(2,947)		**(49,521)**	49,521	–	–
Finance lease	**(122,533)**	(90,604)		**(213,137)**	2,084	–	**(211,053)**
Loans	–	–			(87,144)	–	**(87,144)**
Other	**(80,922)**	(63,398)		**(144,320)**	109,771	–	**(34,549)**
Deferred income tax liability, total	**(1,037,968)**	**(136,538)**	**8,274**	**(1,166,232)**	**(149,698)**	**5,652**	**(1,310,278)**
Total deferred income tax asset (liability), net	**(802,776)**	**75,565**	**8,155**	**(719,056)**	**(207,182)**	**5,652**	**(920,586)**

(Amounts in thousands of Rubles unless stated otherwise)

30. Income Tax (continued)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one entity of the Group is not offset against deferred tax liability of another entity. Respectively, as of December 31, 2006 the Company presented deferred tax asset related to subsidiaries separately within non-current assets in the amount of 7,224 (2005 – 8,342).

31. Earnings (loss) per Share

Earnings per share are calculated by dividing the net profit (loss) attributable to equity holders of the Parent by the weighted average number of shares in issue during the period.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings (loss) per share equal basic earnings (loss) per share.

	2006	2005
Profit (loss) for the year attributable to equity holders of the parent	**350,543**	(945,835)
Weighted average number of ordinary shares outstanding (thousands) and other participating instruments (Note 19)	**3,932,665**	3,932,665
Basic and diluted profit (loss) per share attributable to equity holders of the parent, Russian Rubles	**0.09**	(0.24)

32. Dividends Declared

Dividends to shareholders are determined by the Board of Directors and declared and officially approved at the annual shareholders' meeting. Earnings available for dividends are determined in accordance with Federal Law "On Joint-Stock Companies" and are limited to profits reported in statutory financial statements prepared in accordance with Federal Law "On Accounting" and the Regulations on Accounting and Reporting in Russian Federation.

Dividends are accrued in the year they are declared and approved.

Dividends declared in 2006 based on 2005 results:

Dividends on ordinary shares	0.01031 Rubles per share	30,523
Dividends on preference shares	0.031395 Rubles per share	30,521
Total		**61,044**

33. Contingencies, Commitments and Operating Risks

Operating Environment of the Company

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

Tax Claim

In 2005 tax inspection was held for the fiscal periods 2002-2003. As a result of the inspection the Company received substantial tax claims connected, in particular, with settlements with other operators under interconnection agreements.

On December 16, 2005 Federal Tax Service issued a decision according to which the Company was offered to repay taxes in amount of 678,100, fines and penalties in amount of 312,900. The Company is disputing this decision of Federal Tax Service at court. At present the litigation is under consideration by the Arbitrary Court of Moscow. According to decision of the Arbitrary Court of Moscow dated March 5, 2007 court hearings are postponed.

Based on similar court practice in 2006, the management believes that it is probable that a number of episodes of this disputes will be decided in favor of tax authorities.

Accordingly, the Company created a provision for negative outcome of this litigation in the amount of 118,220 (Note 25).

Litigations

CJSC "Westelcom" raised two claims against the Company: for partial compensation of losses incurred by joint venture in the amount 33,323 and penalties in amount 10,169; and for reimbursement of cash and in-kind contributions amounting in total to 10,281. The Company has lost both cases in the first instance courts and lost the case on reimbursement of contributions in appeal instance court as well.

The Company's management disagrees with claims raised and plans to continue defending its position at court. However, taking into account that currently the court decisions are in favor of the plaintiff, the Company created provision for negative outcome of this litigation in the amount of 43,705.

33. Contingencies, Commitments and Operating Risks (continued)

Litigations (continued)

During the year, the Company was involved in a number of other court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these consolidated financial statements.

Changes in Industry Legislation

New industry provisions under the Federal Law "On Communications" which came into force during 2006 had significant impact on the Company's financial position and results of operations. These new industry pronouncements significantly changed the Company's relationships with interconnected operators and long-distance providers, including OJSC "Rostelecom". During 2006 the Company carried out a campaign of renegotiation of contracts with interconnected operators and long-distance providers. The purpose of the contracts renegotiation was to bring the terms of interconnection contracts in compliance with the new industry regulations.

Due to the fact that the significant part of the new industry regulations became effective on January 1, 2006 the legal practice regarding application of these provisions is not yet developed. As a result, a disagreement in interpretations of the new provisions by the Company and by the regulator may possibly occur. The management believes that as of December 31, 2006 respective industry regulations are correctly interpreted by the Company and that existing uncertainty in interpretation of new industry provisions will not have a significant impact on the Company's financial position and results of operations in subsequent periods.

At the same time there is an uncertainty with regard to circumstances related to the renegotiation of contracts with operators and respective settlements. As at the date of authorization of these consolidated financial statements for issue the Company has not finalized the process of contracts renegotiation with interconnected operators, in particular, 18 out of 296 contracts with interconnected operators were not renegotiated. Besides, due to incompleteness of reconciliations with operators the Company has not finalized recognition of expenses for interconnection services rendered to the Company under contracts with interconnected operators which were renegotiated as at December 31, 2006. With this regard the Company assessed and accrued expenses in amount of 150,000 (Note 22).

Number of operators disagreed with provisions of new contracts and raised claims in the court demanding to conclude contracts under the terms proposed by these operators. Total amount of such claims is not material as at the date of authorization of these consolidated financial statements for issue. The Company's management is unable to estimate results of these claims due to absence of court practice in the field of new legislative pronouncements application.

Accordingly, the management believes that finalization of re-conclusion of contracts and completion of reconciliation of settlements with interconnected operators as well as the resolution of court disputes could have a material impact on the Company's revenues and expenses related to interconnection.

(Amounts in thousands of Rubles unless stated otherwise)

33. Contingencies, Commitments and Operating Risks (continued)

Insurance Coverage

During 2006 the Company did not maintain insurance coverage on a significant part of its property, plant and equipment, business interruption losses, or third party liability in respect of property or environmental damage arising from accidents relating to the Company's property or the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that losses resulting from destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Licenses

Substantially all of the Company's revenues are derived from operations conducted pursuant to licenses granted by the Ministry of Information Technologies and Communications of the Russian Federation. These licenses expire in various years ranging from 2007 to 2012. Suspension or termination of the Company's main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Company.

The Company renewed these licensees on a regular basis in the past and believes that it will be able to renew licenses without additional costs in the normal course of business.

The Government of the Russian Federation is in process of liberalization of telecommunications market for which additional licenses for rendering telecommunication services has been granted to a number of alternative operators. It is possible that the Company's future results of operations and cash flows could be materially affected by the increasing competition, however, the effect can not be currently determined.

Guarantees

As described in the Note 2, the Company changed its accounting policy with regard to guarantees issued in accordance with amended IAS 39.

The Company guaranteed the credit line facilities provided by OJSC "Sberbank" to OJSC "RTC-Leasing", a lessor of telecommunication equipment. The total amount of loans guaranteed as of December 31, 2006 is 1,407,476 (2005 - 2,159,032). As of December 31, 2006 the carrying amount of such guarantees issued amounted to 36,594 (December 31, 2005: 56,134).

Operating lease

As of December 31 minimal rental payments on non-cancelable operating leases were as follows:

	2006	**2005**
	Minimal rental payments	**Minimal rental payments**
Current portion	**32,105**	53,121
From 1 to 5 years	**66,577**	63,427
More then 5 years	**488,705**	357,177
Total:	**587,387**	473,725

Total amount of expenses related to operating lease is included into other operating expenses of consolidated Income statement and amounted to 56 078 (2005– 35 807).

(Amounts in thousands of Rubles unless stated otherwise)

33. Contingencies, Commitments and Operating Risks (continued)

Contractual Commitments

As of December 31, 2006 and 2005 the Company had commitments for capital investments in modernization and expansion of its network in the amount of approximately 182,035 and 33,461, respectively.

Acquisition of Intangible assets

As of December 31, 2006 the Company did not have significant commitments on intangible assets acquisition (2005 - 297,056).

34. Balances and Transactions with Related Parties

In 2006 the Company had the following transactions with related parties:

Rendering Services

During the year ended December 31, 2006 and 2005 the Company rendered services to the following related parties:

Related party	Relationship	Type of Sale	Price determination method	2006	2005
OJSC Rostelecom	Controlled by OJSC “Svyazinvest”	Telecommunication services	Regulated tariff	**2,610,041**	649,246
OJSC “Centralny Telegraf”	Controlled by OJSC “Svyazinvest”	Telecommunication services	Arms’ length terms	**598**	3,592
OJSC “Volgatelecom”	Controlled by OJSC “Svyazinvest”	Telecommunication services	Arms’ length terms	**60**	12
OJSC “Centre Telecom”	Controlled by OJSC “Svyazinvest”	Telecommunication services	Arms’ length terms	**162**	3
OJSC “SibirTelecom”	Controlled by OJSC “Svyazinvest”	Telecommunication services	Arms’ length terms	**50**	–
CJSC “Rostelegraf”	Controlled by OJSC “Svyazinvest”	Telecommunication services	Arms’ length terms	**22,230**	6,520
OJSC “RTComm.RU”	Controlled by OJSC “Svyazinvest”	Telecommunication services	Regulated tariff	**60,782**	19,512
OJSC “Severo-Zapadny Telecom”	Controlled by OJSC “Svyazinvest”	Telecommunication services	Arms’ length terms	**–**	13
JSC “Volgograd GSM”	Jointly controlled entity	Telecommunication services	Arms’ length terms	**107,797**	76,838
CJSC “TeleRoss-Kubanelectrosvyaz”	Jointly controlled entity	Telecommunication services	Arms’ length terms	**9,999**	8,016
“Ug-giprosvyaz” LLC	Associate company	Telecommunication services	Arms’ length terms	**11,261**	7,125
CJSC Stavropolskaya sotovaya svyaz»	Jointly controlled entity	Telecommunication services	Arms’ length terms	**1,194**	1,089
OJSC “Telecompaniya IR”	Associate company	Telecommunication services	Arms’ length terms	**205**	399
CJSC “ZanElCom”	Associate company	Telecommunication services	Arms’ length terms	**175**	317
CJSC “TeleRossVolgograd”	Jointly controlled entity	Telecommunication services	Arms’ length terms	**35**	37
OJSC “Rossiyskaya Telecommunikasionnaya set”	Other related party	Telecommunication services	Arms’ length terms	**263**	1,294

(Amounts in thousands of Rubles unless stated otherwise)

34. Balances and Transactions with Related Parties (continued)

Purchases

During the year ended December 31, 2006 and 2005 the following related parties rendered services to the Company:

Related party	Relationship	Type of Purchase	Price determination method	2006	2005
OJSC Rostelecom	Controlled by OJSC "Svyazinvest"	Telecommunication services	Regulated tariff	**67,748**	2,045,692
Non-Commercial Partnership "Centre for Research of Problems in Development of Telecommunications"	Controlled by OJSC "Svyazinvest"	Donation, membership fee, agency agreement	Arms' length terms	**113,000**	122,930
OJSC "Centralny Telegraf"	Controlled by OJSC "Svyazinvest"	Telecommunication services	Arms' length terms	**4**	2,319
OJSC "Information technologies of communication" (OJSC "Svyazintek")	Controlled by OJSC "Svyazinvest"	Software development and IT consulting	Arms' length terms	**109,780**	1,595
CJSC "Rostelegraf"	Controlled by OJSC "Svyazinvest"	Telecommunication services	Arms' length terms	**34,373**	7,753
OJSC "PTComm.RU"	Controlled by OJSC "Svyazinvest"	Telecommunication services	Regulated tariff	**313,857**	230,863
Non-state Pension Fund "Telecom- Souz"	Controlled by OJSC "Svyazinvest"	Pensions	Arms' length terms	**139,493**	149,478
CJSC "Volgograd GSM"	Jointly controlled entity	cellular communication standard GSM (900 MHz)	Arms' length terms	**13,772**	5,912
"Ug-giprosvyaz" LLC	Associate company	Project engineering	Arms' length terms	**8,271**	167,177
CJSC "Stavropolskaya sotovaya svyaz"	Jointly controlled entity	cellular communication standard AMPS (800 MHz)	Arms' length terms	**4**	5
OJSC "Rossiyskaya Telecommunikasionnaya set"	Other related party	Telecommunication services	Arms' length terms	**787**	430
"Telecom- Stroy" LLC	Other related party	Other services	Arms' length terms	**17,474**	–

(Amounts in thousands of Rubles unless stated otherwise)

34. Balances and Transactions with Related Parties (continued)

Accounts Receivable

As of December 31, 2006 and 2005 the balances of accounts receivable from related parties were as follows:

Related party	Relationship	Type of AR 2006	2006	2005
OJSC Rostelecom	Controlled by OJSC "Svyazinvest"	Telecommunication services	**5,838**	–
Non-Commercial Partnership "Centre for Research of Problems in Development of Telecommunications"	Controlled by OJSC "Svyazinvest"	Agency agreement	**108,958**	113,520
OJSC "Centralny Telegraf"	Controlled by OJSC "Svyazinvest"	Telecommunication services	–	399
CJSC "Rostelegraf"	Controlled by OJSC "Svyazinvest"	Telecommunication services	**21**	–
OJSC "PTComm.RU"	Controlled by OJSC "Svyazinvest"	Telecommunication services	**10,191**	–
CJSC "Volgograd GSM"	Jointly controlled entity	Telecommunication services	**58,731**	5,220
CJSC "TeleRoss-Kubanelectrosvyaz"	Jointly controlled entity	Telecommunication services	**1,168**	14
"Ug-giprosvyaz" LLC	Associate company	Telecommunication services	**15,052**	28,950
CJSC "Stavropolskaya sotovaya svyaz"	Jointly controlled entity	Telecommunication services	**1,588**	342
OJSC "Telecompaniya IR"	Associate company	Telecommunication services	**3**	2
CJSC "Starcom"	Other related party	Other services	**17**	–
CJSC "ZanElCom"	Associate company	Telecommunication services	–	42

(Amounts in thousands of Rubles unless stated otherwise)

34. Balances and Transactions with Related Parties (continued)

Accounts Payable

As of December 31, 2006 and 2005 the balances of accounts payable to related parties were as follows:

Related party	Relationship	Type of AP 2006	2006	2005
OJSC Rostelecom	Controlled by OJSC “Svyazinvest”	Telecommunication services	**145,444**	134,906
OJSC «Centralny Telegraf»	Controlled by OJSC “Svyazinvest”	Telecommunication services	–	461
OJSC «Severo-Zapadny Telecom»	Controlled by OJSC “Svyazinvest”	Telecommunication services	–	1
OJSC «VolgaTelecom»	Controlled by OJSC “Svyazinvest”	Telecommunication services	–	14
OJSC "Informatsionnie technologiy Svyazi" (OJSC «Svyazintech»)	Controlled by OJSC “Svyazinvest”	Software development and IT consulting	–	–
Non-Commercial Partnership “Centre for Research of Problems in Development of Telecommunications”	Controlled by OJSC “Svyazinvest”	Donation	**156,818**	27,930
CJSC «TeleRoss-Kubanelectrosvyaz»	Jointly controlled entity	Telecommunication services	–	56
«Ug-giprosvyaz» LLC	Associate company	Project engineering	**156,543**	175,526
CJSC Stavropolskaya sotovaya svyaz»	Jointly controlled entity	cellular communication standard AMPS (800 MHz)	**2**	1
OJSC «Telecompaniya IR»	Associate company	Telecommunication services	–	186
CJSC «ZanElCom»	Associate company	Development , assembling, exploitation and services for equipment of region networking IT system	–	17
CJSC «Teleross Volgograd»	Jointly controlled entity	Telecommunication services	–	3
CJSC «Volgograd GSM»	Jointly controlled entity	cellular communication standard GSM (900 MHz)	**8,993**	812

Outstanding balances at the year-end are unsecured, interest free and the settlements occur in cash or via mutual offset of the balances with the same customer or supplier. There have been no guaranties provided or received for any related party receivables or payables. For the year ended December 31, 2006, the Company has not made any provision for impairment of receivables relating to amounts owned by related parties (2005 - 0). This assessment is undertaken each financial year through examining the financial position of the related party and the market where the related party operates.

OJSC “Svyazinvest”

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

The Government has and may be expected to continue to exercise significant influence over the operations of Svyazinvest and its subsidiary companies.

(Amounts in thousands of Rubles unless stated otherwise)

34. Balances and Transactions with Related Parties (continued)

OJSC "Svyazinvest" (continued)

The Government's influence is not confined to its share in Svyazinvest. It has general authority to regulate tariffs. In addition, the Ministry of Information Technologies and Communications of the Russian Federation has control over the licensing of providers of telecommunications services.

In 2006 the Company accrued and paid dividends to OJSC "Svyazinvest" in the amount of 15,472 (2005: 14,016).

OJSC "Rostelecom"

OJSC "Rostelecom", a majority owned subsidiary of OJSC "Svyazinvest", is the primary provider of domestic long distance and international telecommunications services in the Russian Federation. The annual revenues associated with OJSC "Rostelecom" relate to traffic transmission services provided by the Company to OJSC "Rostelecom" under the agreements on networks interconnection and to the fees received under the assistance agreement which combines elements of an agency agreement as well as of a service contract.

Starting January 1, 2006 the Company acts as an agent of OJSC "Rostelecom" and on behalf of OJSC "Rostelecom" collects its receivables from the subscribers and then invoices OJSC "Rostelecom" for the services rendered based on the amount of cash collected (agency fees are determined as the 6.25% of the amount collected). The Company also provides to OJSC "Rostelecom" following services under the assistance agreement:

- Subscriber orders' processing services for access to intercity and international telecommunications services provided through the direct and delay operations.
- Billing processing services for intercity and international telecommunications services.
- Preparation, formation and storage of the data and reports;
- Call center support in the name and on behalf of OJSC "Rostelecom".
- Claims administration, documents delivery.

Transactions undertaken by the Company with OJSC "Rostelecom" and reported in the accompanying consolidated financial statements as of December 31, 2006 and 2005 and for the years then ended are as following:

	2006	**2005**
Expenses on traffic transmission and rent of channels	**(67,748)**	(2,045,692)
Revenue received from Rostelecom:	**2,610,041**	649,246
- assistance services	**709,746**	–
- traffic	**1,836,146**	649,246
- other services	**64,149**	–
Accounts payable as of December 31	**145,444**	134,906
Accounts receivable as of December 31	**5,838**	–

All payables to and receivables from Rostelecom are current.

(Amounts in thousands of Rubles unless stated otherwise)

34. Balances and Transactions with Related Parties (continued)

Transactions with Government Organizations

Government organizations are a significant element in the Company’s customer base (Note 26) purchasing services both directly through numerous authorities and indirectly through their affiliates. Certain entities financed by the state budget are users of the Company’s network. These entities are generally charged lower tariffs as approved by the Federal Antimonopoly Agency than those charged to other customers. In addition, the Government may by law require the Company to provide certain services to the Government in connection with national security and the detection of crime.

As of December 31, 2006 and 2005, significant transactions between the Company, the Government and entities controlled by the Government were as follows:

	December 31, 2006		2006	
Operations	**Accounts receivable**	**Accounts payable**	**Revenue**	**Expenses**
Telecom services (organizations under state control)	**10,962**	**8,773**	**304,573**	**22,461**
Telecom services (budget organizations)	**9,711**	**294**	**20,205**	**1,941**
Telecom services (tariff compensation from the state budget)	**694**	**74**	**3,938**	**14,572**
Other telecommunications services	**8,847**	**–**	**19,108**	**–**
Electricity and heating	**5,549**	**3,051**	**–**	**242,367**
Rent expenses	**627**	**160**	**1,205**	**56,962**
Other expenses	**–**	**4,226**	**–**	**171,111**
Loans and borrowings	**–**	**3,144,832**	**–**	**–**
Interest accrued	**–**	**423**	**–**	**485,854**

	December 31, 2005		2005	
Operations	**Accounts receivable**	**Accounts payable**	**Revenue**	**Expenses**
Telecom services (organizations under state control)	11,151	8,437	325,950	14,835
Telecom services (budget organizations)	436	535	18,998	1,940
Telecom services (tariff compensation from the state budget)	464	159	5,522	13,007
Other telecommunications services	6,893	–	17,674	–
Electricity and heating	4,347	2,168	–	209,360
Rent expenses	1,441	271	1,295	55,294
Other expenses	–	5,200	–	139,050
Loans and borrowings	–	4,604,068	–	–
Interest accrued	–	176,698	–	473,549

Government subscribers accounted for approximately 4.01% of gross trade accounts receivable as of December 31, 2006 (2005: 1.98%). Outstanding amount as of December 31, 2006 – 24,732 (2005 – 36,390).

(Amounts in thousands of Rubles unless stated otherwise)

34. Balances and Transactions with Related Parties (continued)

Non-Commercial Partnership "Centre for Research of Problems in Development of Telecommunications"

The non-commercial partnership "Centre for Research of the Problems in Development of Telecommunications" (hereinafter "the Partnership") is an entity controlled by OJSC "Svyazinvest" through its subsidiaries. The Company has an agreement with the Partnership under which it provides funding for industry research and administrative activities on behalf of the Company and of other subsidiaries and associates of OJSC "Svyazinvest". Payments to the Partnership are included in other operating expenses in the accompanying Consolidated Income Statement for the year ended December 31, 2006 and amounted to 113,000 (2005: 122,930).

NPF Telecom-Soyuz

The Company signed a number of agreements on the non-state pension plan with NPF Telecom-Soyuz, which is a related party of "OJSC Svyazinvest" (Note 24). OJSC "Svyazinvest" holds the majority in the Board of Directors of NPF Telecom-Soyuz ("the Fund"). In 2006 payments from the Company to the Fund amounted to 139,493 (2005: 149,478).

OJSC "Svyazintech"

OJSC "Svyazintech" is an entity OJSC "Svyazinvest" controls through its subsidiaries. The Company has several agreements with the OJSC "Svyazintech" under which the latter provides installation services and technical support of Amdocs Billing Suite and Oracle E-Business Suite implementations (Note 6).

Transactions undertaken by the Company with OJSC "Svyazintech" and reported in the accompanying consolidated financial statements as of December 31, 2006 and 2005 and for the years then ended are as follows:

	2006	**2005**
Installation services received during the period	**109,780**	1,352
Accounts payable as of December 31	**–**	638

Compensation to Key Management Personnel

Key management personnel of the Company comprise members of the Management Board and the Board of Directors of the Company totaling 19 persons as of December 31, 2006 (2005: 23). Compensation to the key management personnel included into line Wages, salaries, other benefits and payroll taxes of the consolidated income statement consists of the following:

	2006	**2005**
Short-term employee benefits	**23,693**	21,810
Dividends	**10**	234
Total	**23,703**	22,044

Short-term employee benefits consist primarily of salaries determined by labor contracts, bonuses based on results of the Company's activities and non-state pension plans expenses.

Guarantees received

As at December 31, 2006 the Company's subsidiary, LLC UTK-Finance guaranteed total nominal amount bonds issued by the Company and related interest on bonds.

(Amounts in thousands of Rubles unless stated otherwise)

35. Financial Instruments

The Company's principal financial instruments comprise bank loans and overdrafts, bonds issued, financial leases, promissory notes and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Company's financial instruments are foreign exchange risk, interest rate risk, credit risk and liquidity risk.

Foreign Exchange Risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect items in the Company's Consolidated Income Statement, balance sheet and/or cash flows. Foreign currency denominated assets and liabilities give rise to foreign exchange risk exposure.

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

As a rule, the Company faces foreign exchange risk with regard to liabilities stated in a foreign currency. As of December 31, 2006 Company's liabilities in foreign currency were 5,324,122 (2005: 1,356,126), including liabilities denominated in US dollars 4,744,204 (2005: 220,807) and Euro 579,898 (2005: 1,135,319).

For the period from January 1, 2006 to December 31, 2006 exchange rate of the Russian Ruble to US Dollar increased by approximately 8.5% and exchange rate of the Russian Ruble to Euro decreased by approximately 1.5%.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates may negatively impact the Company's financial results. The Company is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings.

Interest rate risk mainly relates to borrowings with floating rate. As of December 31, 2006 approximately 46.6 % (2005 – 30.9%) of borrowings were obtained at floating rates.

As of December 31, 2006 outstanding amounts of the Company's liabilities were 21,233,773 (2005 – 23,852,352), 9,890,308 (2005– 7,368,941) of them were received at floating rate.

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

	< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	> 5 years	Total
As of December 31, 2006							
Fixed rate							
Short term liabilities	2,431,397	–	–	–	–	–	**2,431,397**
Long term liabilities	539,645	3,456,334	2,617,473	108,152	132,224	17,178	**6,871,006**
Finance lease obligations	811,613	1,229,449	–	–	–	–	**2,041,062**
Floating rate							
Short term liabilities	9,890,308	–	–	–	–	–	**9,890,308**
Long term liabilities	–	–	–	–	–	–	

(Amounts in thousands of Rubles unless stated otherwise)

35. Financial Instruments (continued)

Interest Rate Risk (continued)

	< 1 years	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	> 5 years	Total
As of December 31, 2005, restated							
Fixed rate							
Short term liabilities	2,263,935	–	–	–	–	–	2,263,935
Long term liabilities	2,735,878	3,448,287	2,265,502	2,527,012	213,915		11,190,594
Finance lease obligations	993,973	2,034,909	–	–	–	–	3,028,882
Floating rate							
Short term liabilities	7,368,941	–	–	–	–	–	7,368,941
Long term liabilities	–	–	–	–	–	–	–

Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Company that are not included into the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The Company has no other significant interest-bearing assets, except the assets stated in the table above.

Credit Risk

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

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Company has no significant concentrations of credit risk due to significance of the client base and regular monitoring procedures over customers' and other debtors' ability to pay debts. A part of accounts receivable is represented by debts of state and other non-commercial organizations. Recovery of these debts is influenced by political and economic factors, however, management believes that as of December 31, 2006 there is no significant risk of loss to the Company beyond the provision already recorded.

The Company places cash on bank accounts in a number of Russian commercial banks. To manage credit risk the Company places cash in different financial institutions, and the Company's management analyzes risk of default of these financial institutions on a regular basis.

Liquidity Risk

The Company monitors its risk of a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds, finance leases. As of December 31, 2006, 64% of the Company's debt will mature in less than one year (2005 - 57%).

(Amounts in thousands of Rubles unless stated otherwise)

35. Financial Instruments (continued)

Fair Values of Financial Instruments

Set out below is the comparison by category of carrying amounts and fair values of the Company's financial instruments:

	2006		**2005, as restated**	
Financial instruments	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial Assets				
Investments accounted for using the equity method	**529,576**	**529,576**	564,452	564,452
Long term investments	**15,221**	**15,221**	19,832	19,832
Long term accounts receivables	**204,042**	**204,042**	495,064	495,064
Accounts receivable and other assets	**702,343**	**702,343**	755,722	755,722
Other current assets	**845,034**	**845,034**	1,157,195	1,157,195
Cash and cash equivalents	**331,126**	**331,126**	772,082	772,082
Total	**2,627,342**	**2,627,342**	**3,764,347**	**3,789,347**
Financial Liabilities				
Long term bank loans	**7,303,598**	**7,303,598**	6,650,478	6,650,478
Long term bonds	**9,573,085**	**10,052,837**	11,417,261	11,820,834
Long term promissory notes	**1,005,000**	**1,005,000**	402,462	402,462
Long term vendor financing	**80,517**	**80,517**	136,235	136,235
Other long term liabilities	**49,114**	**49,114**	50,356	50,356
Finance leasing obligations	**2,041,062**	**2,041,062**	3,028,882	3,028,882
Accounts payable	**3,198,164**	**3,198,164**	3,179,511	3,179,511
Short term borrowings	**252,388**	**252,388**	645,998	645,998
Short term promissory notes	**600,000**	**600,000**	925,138	925,138
Short term vendor financing	**14,875**	**14,875**	–	–
Total	**24,117,803**	**24,597,555**	**26,436,321**	**26,839,894**

Fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction (except for forced sale or liquidation). Market prices are considered to be the best evidence of fair value.

Fair values of cash and cash equivalents, trade and other receivables and trade and other payables approximate their carrying amounts due to their short maturity.

36. Events after Balance Sheet Date

Dividends for 2006

The amount of annual dividend per share was approved by general shareholders' meeting on June 26, 2007 in the amount of 0,053031 rubles per one ordinary share and 0,121838 rubles per preferred stock (2005: 0,01031 rubles and 0,031395 rubles, respectively) and comprised 275,444 (2005 – 61,044). Dividends payable for 2006 will be recognized in financial statements for the year 2007.

Field tax audit of the Company's Activities in 2004-2006

In May 2007 the Tax Authorities has started an audit of the Company's taxes for the years 2004-2006.

The tax audit has not been completed as of the date when these financial statements were authorized. There is a possibility that tax authorities will find the tax position of the Company as being insufficiently substantiated. The management is unable to assess the amounts of potential claims that may be brought as a result of this tax audit. However, the management believes that the Company has sufficient grounds to defend its tax position.

36. Events after Balance Sheet Date (continued)

Desktop Tax Review

In February 2007 the Interregional Inspectorate No.7 of the Federal Tax Service of the Russian Federation performed a desktop tax review of the adjusted VAT declarations for the certain months of the years 2004-2006.

On February 28, 2007 the Interregional Inspectorate of the Federal Tax Service of the Russian Federation issued a decision claiming the VAT payable to budget in the amount of 132,307.

The management of the Company disagrees with this claim and is disputing it in the Arbitrary court. As at the date of the issue of these financial statements the appeal instance of the Interregional Inspectorate of the Federal Tax Service of the Russian Federation annulled the disputed decision of the tax authority.

In February 2007 the Interregional Inspectorate of the Federal Tax Service of the Russian Federation performed a desktop tax review of the adjusted VAT declarations for November 2005.

As at February 28, 2007 the Interregional Inspectorate of the Federal Tax Service of the Russian Federation issued a decision claiming the VAT payable to budget in total amount of 6,271.

The management of the Company disagrees with this claim and is disputing it in the Arbitrary court. The action examination is to be held on July 30, 2007. The management believes that the legal perspectives of this case are similar to the case described above.

Changes in VAT settlements with OJSC “Rostelecom” in 2007

Federal Law #119-FZ dated July 22, 2005 introduced amendments to the Chapter 21 of the Tax Code effective January 1, 2007. According to these amendments, new rules of VAT offset for non-cash settlements (including settlements using mutual offsets) were introduced, in particular, VAT may be offset only after actual payments of the tax to supplier. As a result, starting January 1, 2007 settlements between OJSC “Rostelecom” and the Company will be performed in cash without the offset of mutual payables and receivables.

New Provisions of the Federal Law on Communication

Federal Law #14-FZ dated February 9, 2007 introduced amendments to Federal Law #126-FZ “On Telecommunications” dated July 7, 2003. The amendments are effective July, 2007 and comprise the following:

- Mandatory assessment of the conformity of the operator’s communication network to the industry requirements. Such assessment shall be made in the form of an expert examination in accordance with the rules established by the Government of the Russian Federation.
- Registration of operator’s communication networks as a part of a public-use communication network in accordance with rules established by the Government of the Russian Federation.

36. Events after Balance Sheet Date (continued)

New Provisions of the Federal Law on Communication (continued)

Communication networks put in operation before the date when these provisions of the Federal Law "On Communications" came into force have to be registered in accordance with the requirements of these provisions by January 1, 2010.

The Company can not reliably measure the effects of these changes on the financial position and results of operations of the Company as the procedures of the mandatory expertise and registration of the networks has not yet been elaborated and approved by the Government of Russian Federation.

Tariffs for Telecommunication Services

Order # 263-s/4 of the Federal Tariff Service of Russia, dated November 14, 2006 approved and introduced tariffs on local and intrazone telephone communication services, as well as the compensatory allowance to the tariff for local and zonal call initiation services in the amount of 0.53 rubles per minute effective from February 01, 2007.

In accordance with this Order the Company should introduce following tariff plans effective February 1, 2007:

- For subscribers - individuals: three obligatory tariff plans (with time-based, fixed and combined fees);
- For subscribers – legal entities: one obligatory tariff plan (with time-based fee).

Monthly payment for local telephone communication services will be comprised of mandatory payments for "Provision of subscriber's line for permanent use" and "Provision of local telephone connection" services (under one of the payment schemes selected).

Tariff plan under fixed fee terms is primarily aimed at subscribers that make many calls. This tariff plan provides to subscribers unlimited volume of minutes per month for a fixed monthly fee.

Tariff plan with time-based fee stipulates payments for each minute of calls starting with the first second of the call. Calls with duration of less than 6 seconds are not billed.

The tariff plan with combined fee defines a limited monthly number of minutes provided for a fixed payment and the excess of the subscriber's calls over monthly limit is billed at a reduced price per minute.

The above mentioned tariff plans are introduced in municipalities where technical capabilities of capturing calls duration data exists. If these capabilities are absent, subscribers are offered fixed fees at tariffs set by Federal Service on Tariffs which are effective from February 1, 2007.

Universal Telecommunication Service

In accordance with the terms of tenders on provision of universal services won by the Company, during 2007 the Company will commence provision of universal services using payphones on the whole territory of its activity. The Company will install 7,580 of universal payphones.

Capital expenditures planned to be incurred in order to get ready for rendering universal telecommunication services amount to 321,600.

Sale of shares in CJSC TRK Photon

According to the decision of the Board of Directors dated December 11, 2006, in April the Company sold 5,304 shares of CJSC TRK Photon to local authorities for 25,000.

36. Events after Balance Sheet Date (continued)

Sale of shares in LLC TO Accent

According to the decision of the Board of Directors dated December 11, 2006, in May the Company sold 51% stake in LLC TO Accent to local authorities for 11,000.

Loans and borrowings

On February 5, 2007 the Company issued interest-bearing promissory notes to OJSC AKB Svyaz-bank for total amount of 1.5 billion rubles at 9% per annum. The promissory notes were redeemed in June 2007.

On February 20 and 27, 2007 the Company issued promissory notes to OJSC Vneshtorgbank in total amount of 219,332 at 9.75% per annum. The promissory notes mature in 1 year.

On March 2, 2007 with the purpose to guarantee its obligations under the amicable agreement the Company concluded pledge agreement in total amount of 1,260,214.

On February 7, 2007 the Company fully redeemed the bonds of the series 02 in total amount of 1,500,000.

Open tender on borrowings

In April 2007 in accordance with Federal Law dated July 26, 2006 #135-FZ "On competition protection" the Company held an open tender for revolving credit with limits of 1 billion rubles and 500 mln. Rubles for the periods of 3 years and 1 year, respectively.

In accordance with the decision of Tender Committee dated April 27, 2007, the winners are OJSC Svyaz-Bank (line of credit with credit limit of 1 billion rubles) and OJSC AKB Bank of Moscow (line of credit with credit limit of 500 mln. Rubles). Interest rates were set at 9% and 6,45%, respectively. The contracts between the Company and the banks were approved by the Board of Directors on May 17, 2007.

Bonds

On June 7, 2007 the Company issued 2,000 thousand non-convertible interest-bearing bonds Series 05, par value of 1,000 Rubles each, total par value – 2 billion rubles. Bonds are subject to repayment in 1820 days from the date of their placement. The interest rate is accruing at 7.55% per annum. Payments under the first coupon are made on 182^{nd} day from the date of placement of bonds, payments under other coupons are made each next 182^{nd} day.

The bonds were placed at Moscow Interbank Currency Exchange at par.

The Company's obligations are guaranteed by LLC UTK-Finance.

The bonds were issued with the purpose of repayment and refinancing of the Company's debts in order to decrease debt service costs and improve liquidity.

General Director ____________ *Andreev A. V.*   *Chief Accountant* __________ *Rusinova T. V.*