JSC SITRONICS
AND SUBSIDIARIES

Consolidated Financial Statements
Years ended December 31, 2007 and 2006

JSC SITRONICS AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC Sitronics:

We have audited the accompanying consolidated balance sheets of JSC "Sitronics" and its subsidiaries (the "Group") as of December 31, 2007 and 2006 and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the Group changed the manner in which it accounts for uncertain income tax positions effective January 1, 2007, following the adoption of Statement of Financial Accounting Standards Interpretation No 48, "Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109".

Deloitte & Touche

May 8, 2008

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2007	2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	$ 185,486	$ 89,840
Short-term investments	5	9,489	28,725
Trade receivables, net	6	616,611	658,498
Other receivables and prepaid expenses, net	7	145,342	95,806
Inventories and spare parts, net	8	210,490	250,351
Restricted cash	14	7,525	-
Deferred tax assets, current portion	23	7,203	6,517
Total current assets		1,182,146	1,129,737
Property, plant and equipment, net	9	470,074	268,820
Intangible assets, net	10	100,385	89,813
Inventories and spare parts, net	8	63,134	-
Long-term investments	11	3,201	1,728
Long-term trade receivables	12	36,629	84,105
Restricted cash	14	2,120	50,544
Deferred tax assets, long-term portion	23	27,553	19,887
Other long-term assets	13	2,054	2,733
TOTAL ASSETS		**$ 1,887,296**	**$ 1,647,367**

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006 (CONTINUED)
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2007	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable	15	$ 294,067	$ 296,502
Taxes payable		38,613	34,490
Accrued expenses and other current liabilities	16	159,918	132,872
Derivative financial instruments	22	52,563	34,317
Short-term loans and notes payable	17	254,246	157,555
Current portion of long-term debt	18	175	9,935
Deferred tax liabilities, current portion	23	9,380	607
Total current liabilities		808,962	666,278
LONG-TERM LIABILITIES:			
Capital lease obligations	19	877	3,074
Long-term debt	18	257,821	330,966
Other long-term liabilities	21	11,776	11,723
Deferred tax liabilities, long-term portion	23	15,618	10,302
Total long-term liabilities		286,092	356,065
TOTAL LIABILITIES		1,095,054	1,022,343
MINORITY INTERESTS		206,372	177,501
COMMITMENTS AND CONTINGENCIES	28	-	-
SHAREHOLDERS' EQUITY:			
Share capital (9,547,087,190 and 7,997,247,990 shares authorized and issued as of December 31, 2007 and 2006, respectively, with par value of 1 ruble)	24	335,764	276,941
Treasury stock (796,776,440 and 748,806,541 shares with par value of 1 ruble as of December 31, 2007 and 2006, respectively)	24	(53,659)	(27,135)
Shareholder's receivable	24	(9,256)	(11,102)
Additional paid-in capital	24	409,724	94,868
(Accumulated deficit) / retained earnings		(163,565)	86,564
Accumulated other comprehensive income		66,862	27,387
TOTAL SHAREHOLDERS' EQUITY		585,870	447,523
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 1,887,296**	**$ 1,647,367**

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS)/ INCOME FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(Amounts in thousands of U.S. dollars unless otherwise stated)

	Notes	2007	2006
Revenues		$ 1,619,605	$ 1,610,734
Cost of sales, exclusive of depreciation and amortization shown separately below		(1,404,818)	(1,240,899)
Research and development expenses		(44,828)	(27,213)
Selling, general and administrative expenses		(271,955)	(163,805)
Depreciation and amortization		(56,452)	(44,048)
Other operating income / (expenses), net		867	(6,531)
OPERATING (LOSS) / INCOME		(157,581)	128,238
Interest income		14,397	11,060
Interest expense, net of amounts capitalized		(39,885)	(32,065)
Foreign currency transactions losses		(8,852)	(9,002)
Other non-operating losses		(1,336)	-
(Loss) / income before income tax and minority interests		(193,257)	98,231
Income tax expense	23	(27,398)	(32,288)
(Loss) / income before minority interests		(220,655)	65,943
Minority interests		(13,274)	(4,629)
NET (LOSS) / INCOME		**$ (233,929)**	**$ 61,314**
Translation adjustment, net of minority interests of $15,785 and $8,517, respectively, and income tax effect of $nil		38,991	28,955
Unrecognized actuarial gains/(losses), net of minority interests of $466 and $531, respectively, and income tax effect of $nil		484	(554)
COMPREHENSIVE (LOSS) / INCOME		**$ (194,454)**	**$ 89,715**
Weighted average number of common shares outstanding, basic and diluted:		8,511,003,404	6,225,013,990
Earnings per share, basic and diluted, USD:		(0.03)	0.01

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. dollars)

	2007	2006
OPERATING ACTIVITIES:		
Net (loss) / income	$ (233,929)	$ 61,314
Adjustments to reconcile net (loss)/income to net cash provided by/ (used in) operations, net of impact of acquired subsidiary:		
Depreciation and amortization	56,452	44,048
Pre-acquisition operating cash flows of the acquired subsidiaries	-	(12,900)
Minority interests	13,274	4,629
Loss/(gain) from disposal of property, plant and equipment	87	(275)
Gain on disposal of subsidiaries	(4,585)	-
Deferred income tax	5,050	(6,622)
Bad debt expense	54,859	7,776
Loss on early extinguishment of debt	7,644	-
Stock based compensation	20,402	-
FIN 48 effect	3,257	-
Other non-operating losses	1,336	-
Foreign currency transactions gain on non-operating activities, net	(1,119)	-
Changes in operating assets and liabilities:		
Trade receivables	98,145	(82,014)
Other receivables and prepaid expenses	(36,921)	(19,981)
Inventories and spare parts	(4,377)	(21,501)
Accounts payable	(20,323)	7,485
Taxes payable	429	(24,504)
Accrued expenses and other current liabilities	41,886	(102,984)
Net cash provided by / (used in) operating activities	$ 1,567	$ (145,529)
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(203,130)	(82,276)
Proceeds from disposals of property, plant and equipment	3,084	3,918
Purchases of intangible assets	(32,853)	(5,496)
Purchases of businesses, net of cash acquired	(44,709)	(57,520)
Cash withdrawn / (deposited) for acquisition of Intracom Telecom	39,630	(46,100)
Increase / (decrease) in other restricted cash	1,269	(2,339)
Purchases of short-term investments	(4,121)	(163,694)
Proceeds from sales of short-term investments	23,651	146,084
Purchases of long-term investments	(2,081)	-
Net cash used in investing activities	$ (219,260)	$ (207,423)

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. dollars)

	2007	2006
FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	$ 288,453	$ 167,636
Principal payments on short-term borrowings	(215,129)	(217,648)
Proceeds from long-term borrowings	122,626	204,424
Principal payments on long-term borrowings	(206,632)	(1,478)
Principal payments on capital lease obligations	(3,106)	(2,934)
Debt issuance costs	(1,310)	(1,835)
Dividends paid to minority shareholders of subsidiaries	-	(1,586)
Proceeds from stock options exercised	5,554	-
Proceeds from issuance of common stock	355,123	240,257
Repurchase of common stock	(36,000)	(40,926)
Net cash provided by financing activities	$ 309,579	$ 345,910
Effects of exchange rate changes on cash and cash equivalents	3,760	13,523
INCREASE IN CASH AND CASH EQUIVALENTS	**$ 95,646**	**$ 6,481**
CASH AND CASH EQUIVALENTS, beginning of the year	**$ 89,840**	**$ 83,359**
CASH AND CASH EQUIVALENTS, end of the year	**$ 185,486**	**$ 89,840**
CASH PAID DURING THE YEAR FOR:		
Interest, net of amounts capitalized	(32,582)	(16,346)
Income taxes	(25,521)	(54,294)
NON-CASH ITEMS:		
Equipment acquired under capital lease	60	3,458
Advances paid for purchase of long-lived assets	(123,719)	(34,749)
Amounts due for purchase of long-lived assets	3,225	3,682

Non-cash investing and financing activities for the years ended December 31, 2007 and 2006 included acquisitions and disposals of subsidiaries and stock-based compensation, as described in Notes 3 and 25.

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in thousands of U.S. dollars)

	Share capital	Treasury stock	Share-holder's receivable	Additional paid-in capital	(Accumula-ted deficit)/ retained earnings	Accumulated other com-prehensive income	Total
Balances at January 1, 2006	**$ 59,213**	**$ -**	**$ -**	**$ 76,130**	**$ 28,490**	**$ (1,014)**	**$ 162,819**
Issuance of common stock to Sistema	206,769	-	-	(56,766)	-	-	150,003
Issuance of common stock to EBRD	10,959	-	-	68,705	-	-	79,664
Excess over net book value on issue of shares to minority shareholders in a subsidiary	-	-	-	6,248	-	-	6,248
Repurchase of common stock	-	(40,926)	-	-	-	-	(40,926)
Sale of treasury stock	-	13,791	(10,551)	-	(3,240)	-	-
Interest on shareholder's receivable	-	-	(551)	551	-	-	-
Unrecognized actuarial losses, net of minority interests of $531 and income tax of $nil	-	-	-	-	-	(554)	(554)
Translation adjustment, net of minority interests of $8,517 and income tax of $nil	-	-	-	-	-	28,955	28,955
Net income	-	-	-	-	61,314	-	61,314
Balances at December 31, 2006	**$ 276,941**	**$ (27,135)**	**$ (11,102)**	**$ 94,868**	**$ 86,564**	**$ 27,387**	**$ 447,523**
Issuance of common stock	58,823	-	-	293,257	-	-	352,080
Repurchase of common stock	-	(36,000)	-	-	-	-	(36,000)
Stock-based compensation	-	-	-	20,402	-	-	20,402
Stock options exercised	-	9,476	-	-	(3,923)	-	5,553
Payment from shareholder	-	-	3,043	-	-	-	3,043
Interest on shareholder's receivable	-	-	(1,197)	1,197	-	-	-
Effect of FIN 48 implementation	-	-	-	-	(12,277)	-	(12,277)
Unrecognized actuarial gains net, of minority interests of $466 and income tax of $nil	-	-	-	-	-	484	484
Translation adjustment, net of minority interests of $15,785 and income tax of $nil	-	-	-	-	-	38,991	38,991
Net loss	-	-	-	-	(233,929)	-	(233,929)
Balances at December 31, 2007	**$ 335,764**	**$ (53,659)**	**$ (9,256)**	**$ 409,724**	**$ (163,565)**	**$ 66,862**	**$ 585,870**

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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

On February 7, 2007, SITRONICS completed an initial public offering of 1,675,000,000 common shares, with a par value of 1 RUB per share comprising 125,160,800 ordinary shares and 30,996,784 global depositary receipts ("GDRs"), with 1 GDR representing 50 shares. The GDRs were admitted to trade on the London Stock Exchange. Proceeds from the offering, net of the underwriters' discount, amounted to $352.1 million.

During the year ended December 31, 2007, SITRONICS merged its Consumer Electronics and Electronics Manufacturing Services business segments into the Consumer Services and Products segment. This merger was executed to streamline the decision-making process within the combined division.

The Group currently operates along four operating segments:

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Group's entities maintain accounting records in the local currencies in accordance with the requirements of accounting and tax legislation in the countries of their incorporation. The accompanying financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP, which are not recorded in the accounting books of the Group's entities and are expressed in terms of US dollars (see "Foreign Currency Translation Methodology" below).

Principles of Consolidation – The consolidated financial statements include the accounts of SITRONICS, and its majority-owned subsidiaries. The consolidated financial statements also include accounts of variable interest entities as defined by FIN 46 (R) (including Cosmos Wealth) where the Group is the primary beneficiary. The assets and liabilities of the subsidiaries transferred to the Group by Sistema are recorded in these financial statements at the historical cost of Sistema. Any difference between the historical cost of net assets and the consideration paid was accounted for as an adjustment to the shareholders' equity of the Group.

The effective ownership interest and proportion of voting power of SITRONICS in its significant subsidiaries, as well as locations of their principal business operations as of December 31, 2007 and 2006 were as follows:

Operating entities	Effective ownership interest as of December 31,		Voting interest as of December 31,	
	2007	2006	2007	2006
Telecommunication Solutions segment:				
Intracom Telecom (Greece)	51%	51%	51%	51%
Intrarom (Romania)	34% [1]	34% [1]	67%	67%
SITRONICS TS CR (Czech Republic)	100%	100%	100%	100%
Tesla tech (Czech Republic)	100% [1]	100% [1]	100%	100%
SITRONICS TS (Russia)	100%	100%	100%	100%
Information Technologies Solutions segment:				
Kvazar-Micro Corporation (Netherlands)	51%	51%	51%	51%
Kvazar-Micro International (United Kingdom)	51% [1]	51% [1]	100%	100%
Kvazar-Micro Techno (Ukraine)	51% [1]	51% [1]	100%	100%
Kvazar-Micro.ru (Russia)	51% [1]	51% [1]	100%	100%
Microelectronic Solutions segment:				
Mikron (Russia)	77%	78%	77%	78%
VZPP-Mikron (Russia)	100%	97%	100%	97%
SITRONICS Smart Technologies (Russia)	65%	65%	65%	65%
Consumer Services and Products segment:				
SITRONICS (Russia)	100%	100%	100%	100%
SITRONICS Ukraine	0%	100%	0%	100%
Kvant (Russia)	78%	78%	88%	88%
Elaks (Russia)	84%	84%	84%	84%
Elion (Russia)	75%	75%	90%	90%
Concel (Russia)	100%	73%	100%	73%

[1] – Including indirect ownership

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

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

Variable Interest Entity – The Group consolidates Cosmos Wealth, a variable interest entity, of which the Group is a primary beneficiary. Cosmos Wealth operates in Southeast Asia, buying wafers from Russian entities of the Microelectronic Solutions segment, dicing the wafers into integrated circuits (ICs) and packaging the ICs for resale to original equipment manufacturers. Cosmos Wealth is directly owned by Sistema. The assets of Cosmos Wealth, as well as results of its operations have not been significant to the Group during the years ended December 31, 2007 and 2006.

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

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

Comparative Information – Certain prior year amounts and disclosures have been reclassified to conform to the 2007 presentation.

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

Management has determined that the functional currencies of the Group's significant subsidiaries for the year ended December 31, 2007 are the currencies of the countries of their domicile, with the exception of Kvazar-Micro International Ltd, a company incorporated in the United Kingdom, whose functional currency is the US dollar ("USD") due to the pervasive use of the USD in its operations.

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

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

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

The estimation of the fair value of of the Group's financial instruments with subsidiaries and affiliates of Sistema is not practicable due to related party nature of the underlying transactions. The estimated fair value of short-term financial instruments and long-term variable rate financial instruments with third parties as of December 31, 2007 approximated their carrying value as reflected in the consolidated balance sheet. The fair value of the Group's publicly traded long-term notes as of December 31, 2007 was 99.9% of the principal amount. The Group's other long-term financial instruments are not significant as of December 31, 2007.

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

The Group's derivatives have not met the conditions for hedge accounting. Gains and losses from changes in the fair value are included in the consolidated statements of operations.

The Group does not use derivatives for trading purposes.

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

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

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

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

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

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

Property, Plant and Equipment – For the entities acquired by the Group in the course of merger described in Note 1, property, plant and equipment ("PP&E") were assigned their fair values at the date of acquisition by Sistema. For the entities acquired by the Group subsequent to the merger described in Note 1, PP&E were assigned their fair values at the date of acquisition by the Group. If the fair values of the identifiable net assets of the acquired entities exceeded acquisition cost, the fair values of non-current assets held by the acquired entities at the acquisition date, including PP&E, were reduced by such excess. All subsequent purchases of PP&E have been recorded at cost.

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

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

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

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

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

For the entities acquired by the Group in the course of merger described in Note 1, intangible assets were assigned their fair values at the date of acquisition by Sistema. For the entities acquired by the Group subsequent to the merger described in Note 1, intangible assets were assigned their fair values at the date of acquisition by the Group. All subsequent purchases of intangible assets have been recorded at cost. Costs of developing computer software products incurred by the Group are accounted for in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Accordingly, software development costs incurred subsequent to the determination of technological feasibility and marketability of a software product are capitalized. Technological feasibility is established when the Group has completed all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features, and technical performance requirements.

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

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

The Group's trademarks have unlimited contractual life and are not amortized, but are reviewed, at least annually, for impairment. At each balance sheet date, the unamortized capitalized costs of the computer software product are compared to the net realizable value of that product. The amount by which the unamortized capitalized costs of a computer software product exceed the net realizable value of that asset is written off.

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

Debt Issuance Costs – Debt issuance costs are amortized using the effective interest method over the terms of the related debt. Debt issuance costs amounted to $1.8 million and $1.3 million as of December 31, 2007 and 2006, respectively.

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

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

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

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

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

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

Telecommunication Solutions segment:

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

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

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

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

Information Technologies Solutions segment:

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

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

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

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

Microelectronic Solutions, Consumer Services and Products segments:

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

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

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

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

Income Taxes – Income taxes for the Group's subsidiaries have been computed in accordance with the respective local laws. Income tax rates effective during the years ended December 31, 2007 and 2006, in countries where the Group primarily operates were as follows:

Starting from January 2008, income tax rate in Czech Republic was changed to 21%.

	2007	2006
Russian Federation ("RF")	24%	24%
Ukraine	25%	25%
Czech Republic	24%	26%
Greece	25%	29%
Romania	16%	16%

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

On January 1, 2007, the Group adopted the provisions of the FASB Interpretation No. 48 ("FIN No. 48"), "Accounting for Uncertainty in Income Taxes" – an interpretation of FASB Statement No. 109. FIN No. 48 removes income taxes from the scope of SFAS No. 5, "Accounting for Contingencies", creates a single model to address uncertainty in tax positions and prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on de-recognition, measurement and classification of tax positions, accounting for interest and penalties, disclosure and transition.

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

(a) Defined contribution plans:

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

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

(b) Other post-retirement benefits:

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

Borrowing Costs – Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the years ended December 31, 2007 and 2006 amounted to $8.8 million and $nil, respectively.

Advertising Costs – Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2007 and 2006 were $1.7 million and $5.4 million, respectively, and were reflected as a component of selling, general and administrative expenses in the consolidated statements of operations.

Earnings per Share – Earnings per share ("EPS") have been determined using the weighted average number of shares outstanding during the years ended December 31, 2007 and 2006. Diluted earnings per share are computed on the basis of the weighted average number of shares outstanding plus the effect of the stock option plan introduced in 2007. However since the effect of the stock option plan is anti-dilutive, the stock option plan was excluded from the calculation.

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

Distributions to Shareholders – Distributable retained earnings of JSC Sitronics are based on amounts determined in accordance with Russian statutory accounting regulations and differ significantly from the amounts calculated on the basis of U.S. GAAP. JSC Sitronics had approximately $0.5 million (unaudited) of undistributed and unreserved earnings as at December 31, 2007.

Asset Retirement Obligations – In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations", the Group calculates an asset retirement obligation and an associated asset retirement cost when the Group has a legal or contractual obligation in connection with the retirement of tangible long-lived assets. The Group's obligations under SFAS No. 143 relate primarily to the cost of removing equipment from its leased production facilities and other leased sites. As of December 31, 2007 and 2006, the estimated assets retirement obligations were not significant to the Group's consolidated financial position and results of operations.

Comprehensive Income (loss) – The Group accounts for comprehensive income (loss) under the provisions of SFAS No. 130, "Reporting Comprehensive Income," which established standards for the reporting and display of comprehensive income (loss) and its components. Comprehensive income (loss) represents the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources.

Stock Options – The Group accounts for stock-based compensation in accordance with provisions of SFAS No. 123R (revised 2004), "Share-Based Payment". Under SFAS No. 123R, companies must calculate and record the compensation cost, such as stock options or restricted stock, awarded to employees for services received in the income statement. The compensation cost is measured based on the fair value of the instruments on the date they are granted using a Black-Scholes option pricing model and is recognized over the period during which the employees are required to provide services in exchange for the equity instruments.

The stock options were anti-dilutive in 2007.

New Accounting Pronouncements

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

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

In February 2007, the FASB issued FASB Statement No. 159 ("SFAS No. 159"), "The Fair Value Option for Financial Assets and Financial Liabilities" – including an amendment of FASB Statement No. 115, which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS No. 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings (the fair value option, or FVO). The Statement's objective is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (1) makes that choice in the first 120 days of that fiscal year, (2) has not yet issued financial statements, and (3) elects to apply the provisions of FASB Statement No. 157, "Fair Value Measurements". The Group adopted the provisions of SFAS No. 159 effective January 1, 2008. Management has decided not to designate any additional financial instruments to be accounted for at the fair value effective January 1, 2008 and therefore believes that the adoption will not have a material impact on the Group's financial statements.

In December 2007, the FASB issued FASB Statement No. 141 (Revised 2007) ("SFAS No. 141R"), "Business Combinations", which significantly changes the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R will change the accounting treatment for certain specific acquisition related items including:

(1) expensing acquisition related costs as incurred; (2) valuing noncontrolling (minority) interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS No. 141R also includes a substantial number of new disclosure requirements. SFAS No. 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. Retrospective application and early adoption of SFAS No. 141R is prohibited. Management believes that SFAS No. 141R will have an impact on the accounting for future business combinations once adopted but the effect cannot be quantified at the moment.

In December 2007, the FASB issued FASB Statement No. 160 ("SFAS No. 160"), "Noncontrolling Interests in Consolidated Financial Statements", which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 requires that a noncontrolling interest in a subsidiary (minority interest) should be reported as equity in the consolidated financial statements separately from the parent company's equity. Among other requirements, this statement requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest. This statement is effective on January 1, 2009. Management is currently evaluating the provisions of SFAS No. 160 to determine the potential impact, if any, the adoption will have on the Group's financial statements.

In March 2008, the FASB issued FASB Statement No. 161 ("SFAS No. 161"), "Disclosures about Derivative Instruments and Hedging Activities". The new standard requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity's financial statements. SFAS No. 161 becomes effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management is currently evaluating the potential impact, if any, of the adoption of SFAS No. 161 on the Group's financial statements.

3. ACQUISITIONS AND DISPOSALS

Intracom Telecom – In June 2006, SITRONICS acquired 51.0% of the common shares of Intracom Telecom for EUR 120.0 million (equivalent of $150.6 million at the date of the transaction) from Intracom Holdings S.A., of which $106.7 million was paid in cash in June 2006. In May 2007, the purchase price was reduced by $1.0 million and $39.6 million of the outstanding balance was paid in cash. As of December 31, 2007 $7.3 million remained outstanding and is recorded as a liability (Note 16).

Mikron – In January 2007, SITRONICS purchased from Waltermore Ltd. 7.6% of the voting shares of Mikron for $7.3 million. The excess of the purchase price over the acquired interest in the net assets of Mikron in the amount of $5.1 million was allocated to the cost of buildings and the production plant. The percentage share of SITRONICS in Mikron decreased from 78% to 77% due to the issue of additional shares to the Russian Federation Agency for Management of Federal Property.

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

SITRONICS Ukraine – In October 2007, SITRONICS disposed of its 100% stake in its subsidiary – SITRONICS Ukraine to a third party for a consideration of $0.1 million. The resulting gain of $1.4 million is reflected in other operating income.

Corona – In December 2007, Mikron disposed of its 100% stake in its subsidiary – Corona to a third party for consideration of $0.5 million. The resulting gain of $3.2 million was reflected in other operating income.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2007 and 2006 comprised the following:

	2007	2006
RUB and USD current accounts with subsidiary of Sistema:		
Moscow Bank for Reconstruction and Development (MBRD)	$ 86,665	$ 49,239
RUR and USD deposits with subsidiary of Sistema		
Moscow Bank for Reconstruction and Development (MBRD)	26,781	-
Term deposits with third parties:		
UAH deposits	10,891	7,921
EUR deposits	349	5,372
USD deposits	7,781	2,670
Other deposits	9,109	1,753
Current accounts with third parties:		
USD current accounts	7,648	8,172
EUR current accounts	7,238	4,840
CZK current accounts	1,858	2,828
RUB current accounts	12,450	2,301
Other	13,564	4,103
Cash on hand	1,152	641
Total	**$ 185,486**	**$ 89,840**

Term deposits have original maturities less than three months. As of December 31, 2007, bank deposits denominated in UAH bear interest of 16% per annum and all other deposits bear interest from 2.0% to 5.1% per annum. Interest income earned on MBRD current accounts and deposits is disclosed in Note 27.

5. SHORT-TERM INVESTMENTS

USD and RUB denominated short-term investments as of December 31, 2007 and 2006 comprised the following:

	Annual interest rate	Maturity date	2007	2006
Promissory notes of Sistema and its subsidiaries	0%	on demand	$ 6,327	$ 26,180
Other	various	various	3,162	2,545
Total			**$ 9,489**	**$ 28,725**

Management anticipates no losses in respect of short-term investments.

6. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful accounts, as of December 31, 2007 and 2006 comprised the following:

	2007	2006
Trade receivables	$ 643,621	$ 669,327
Less: provision for doubtful accounts	(27,010)	(10,829)
Total	**$ 616,611**	**$ 658,498**

Included in trade receivables as of December 31, 2007 and 2006 are receivables for services provided and products shipped to subsidiaries and affiliates of Sistema in the amounts of $160.6 million and $144.3 million, respectively (Note 27). Management anticipates no losses in respect of receivables from these entities.

During 2007, Intracom Telecom sold, without recourse, under a factoring agreement, accounts receivable in the amount of $28.9 million. This transaction did not have a material impact on the results of operations of the Group.

The Group has recognized a bad debt charge of $ 15.6 million in 2007 mainly in the Telecommunication Solutions segment.

7. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

Other receivables and prepaid expenses, net of provision for doubtful accounts, as of December 31, 2007 and 2006 comprised the following:

	2007	2006
Advances to suppliers	$ 103,486	$ 52,869
Recoverable VAT	25,312	17,254
Other taxes prepaid	23,850	9,377
Prepaid expenses	18,004	11,649
Rental receivable	2,214	-
Loans to employees	1,451	1,360
Debt issuance costs, current portion	1,370	-
Other	12,923	6,013
Less: provision for doubtful accounts	(43,268)	(2,716)
Total	**$ 145,342**	**$ 95,806**

The Group has recognized a bad debt charge against other receivables of $ 40.6 million in 2007 mainly in the Consumer Services and Products segment.

8. INVENTORIES AND SPARE PARTS, NET

Inventories and spare parts as of December 31, 2007 and 2006 comprised the following:

	2007	2006
Raw materials and spare parts	$ 92,219	$ 98,120
Work-in-progress	54,548	39,974
Finished goods and goods for resale	126,857	112,257
	273,624	250,351
Less: long-term portion	(63,134)	-
Total	**$ 210,490**	**$ 250,351**

As of December 31, 2007 and 2006, inventory with the carrying amount of $17.7 million and $20.5 million, respectively, was pledged to Intel (Note 15).

Inventories obsolescence expense comprised $22.9 million and $12.8 million, for the years ended December 31, 2007 and 2006, respectively.

In the year ended December 31, 2007, the Group has re-evaluated the classification of inventories and determined that $63.1 million of inventories is expected to be sold in the years ended December 31, 2009 and 2010. Accordingly, this amount has been classified into long-term assets.

The Group has recognised inventory write downs on long-term construction type contracts and inventory obsolescence expense of $ 31.5 million in 2007 mainly in the Telecommunication Solutions segment.

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2007 and 2006 comprised the following:

	2007	2006
Land	$ 21,200	$ 20,017
Buildings and leasehold improvements	174,817	136,764
Plant, machinery and equipment (including leased vehicles and equipment of $23,453 and $15,992, as of December 31, 2007 and 2006, respectively)	145,745	113,743
Construction in progress and equipment for installation	196,477	47,216
	538,239	317,740
Less: accumulated depreciation (including leased vehicles and equipment of $7,258 and $3,771, as of December 31, 2007 and 2006, respectively)	(68,165)	(48,920)
Total	**$ 470,074**	**$ 268,820**

Depreciation expense for property, plant and equipment for the years ended December 31, 2007 and 2006 comprised $28.3 million and $26.1 million, respectively.

Land and buildings with an approximate carrying value of $5.8 million as of December 31, 2007 and 2006 were pledged to collateralize the outstanding balance of debt to BAWAG Bank (Note 18).

10. INTANGIBLE ASSETS, NET

Intangible assets, net of accumulated amortization, as of December 31, 2007 and 2006 comprised the following:

	2007			2006		
	Gross carrying value	Accumu-lated amorti-zation	Net carrying value	Gross carrying value	Accumu-lated amorti-zation	Net carrying value
Finite-life intangible assets:						
Customer contracts and the related customers relationships	$ 21,334	$ (14,984)	$ 6,350	$ 21,334	$ (11,914)	$ 9,420
Software costs	115,557	(36,626)	78,931	83,833	(10,478)	73,355
Licenses	12,531	(2,729)	9,802	2,240	-	2,240
Other	2,281	(208)	2,073	1,697	(110)	1,587
	151,703	(54,547)	97,156	109,104	(22,502)	86,602
Indefinite-life intangible assets:						
Trademarks	3,229	-	3,229	3,211	-	3,211
Total	**$ 154,932**	**$ (54,547)**	**$ 100,385**	**$ 112,315**	**$ (22,502)**	**$ 89,813**

Amortization expense for the years ended December 31, 2007 and 2006 comprised $28.1 million and $17.9 million, respectively.

The estimated amortization expense for the finite-life intangible assets existing as of December 31, 2007 for each of the five succeeding fiscal years and thereafter is as follows:

2008	$ 18,615
2009	16,978
2010	16,978
2011	16,889
2012	15,061
Thereafter	12,635
Total	**$ 97,156**

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

11. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2007 and 2006 comprised the following:

	2007	2006
Share in Coral/ Sistema Strategic Fund, LLC	$ 1,176	$ -
Voting common shares of Angstrem (11%)	806	735
Voting common shares of Intracom Construct (8%)	818	724
Voting common shares of Angstrem-M (11%)	256	234
Voting common shares of Navig-Info Systems (25.5%)	104	-
Voting common shares of Lotrom (16%)	41	35
Total	**$ 3,201**	**$ 1,728**

In December 2007, the Group invested $1.2 million in cash in the Coral / Sistema Strategic Fund, LLC owned by Sistema and several of its subsidiaries. The Group commited to invest a further $8.9 million into the fund which will invest in companies of strategic value for the Group and other subsidiaries of Sistema (Note 28).

12. LONG-TERM TRADE RECEIVABLES

The long-term portion of trade receivables as of December 31, 2007 and 2006 comprised the following:

	Annual interest rate	Maturity date	2007	2006
Trade receivables from third parties	EURIBOR +1.5%, LIBOR+1.5%	2009	$ 33,518	$ 79,435
Trade receivables from Sistema affiliates	0%	2009	3,111	4,670
Total			**$ 36,629**	**$ 84,105**

Non-interest bearing long-term trade receivables are measured at amortized cost using the effective interest method, with the exception of trade receivables from Sistema affiliates.

13. OTHER LONG-TERM ASSETS

In July 2004, Kvazar-Micro.ru entered into a long-term agreement with Sistema for an operating lease of office premises in Moscow for the period of 86 months and made an advance payment for the rent. Included in other long-term assets is a a prepayment of $1.6 million in relation to the lease. The short-term portion of the prepaid rent is included in other receivables and prepaid expenses.

14. RESTRICTED CASH

Subject to the terms of the share purchase agreement for Intracom Telecom, the deferred compensation of EUR 35 million was placed by SITRONICS in an escrow account as a deposit. In May 2007, the amount of EUR 29.2 million ($42.7 million as of December 31, 2007) was paid according to the share purchase agreement, while at the same time the purchase price was reduced by EUR 0.7 million ($1.0 million as of December 31, 2007) as a result of an independent audit. The remaining amount of EUR 5.1 mln ($7.3 mln as of 31.12.2007) is payable not later than 2008.

In 2001-2007, Kvazar-Micro International placed deposits in ING Bank to secure guarantees issued by the bank in favor of Intel International B.V. (Note 15). These deposits amount to $2.1 million and mature not later than December 31, 2008. Management intends to prolong these arrangements.

15. TRADE ACCOUNTS PAYABLE

As of December 31, 2007 and 2006, the Group's accounts payable included $11.4 million and $17.6 million, respectively, due to Intel. The amounts due to Intel are collateralized by all proceeds (including accounts receivable) derived by the Group from distribution of Intel's products, the Group's inventory of Intel's products and a guarantee in the amount of $2.1 million issued by ING Bank, which is, in its turn, collateralized by the Group's cash deposit of the same amount in the bank.

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2007 and 2006 comprised the following:

		2007		2006
Customers' prepayments and billings in excess of project costs	$	76,135	$	30,484
FIN 48 provision (Note 23)		16,987		-
Accrued payroll and vacation		15,697		13,528
Payable for purchase of Intracom Telecom shares (Note 3)		7,320		46,122
Interest payable on debt		6,511		7,220
Warranty obligations		4,432		3,185
Current portion of capital lease (Note 19)		2,675		3,643
Current portion of pension benefit obligations (Note 20)		703		580
Payable for VZPP-Mikron shares (Note 3)		-		4,500
Accrued expenses and other current liabilities		29,458		23,610
Total	**$**	**159,918**	**$**	**132,872**

Customers' prepayments and billings in excess of project costs as of December 31, 2007 and 2006 included amounts related to transactions with subsidiaries and affiliates of Sistema of $28.3 million and $9.5 million, respectively (Note 27).

17. SHORT-TERM LOANS AND NOTES PAYABLE

At December 31, 2007 and 2006, short-term loans and notes payable comprised the following:

	Annual interest rate (Actual at December 31, 2007)	2007	2006
Revolving credit facilities:			
Including:			
Euro-denominated	EURIBOR+0.9%-1.25%	$ 17,569	$ 65,789
CZK-denominated	PRIBOR+0.9%	16,595	29,939
Other	-	-	2,890
		34,164	**98,618**
USD and RUB-denominated loans and notes payable to Sistema subsidiaries	0%	**10,398**	**5,353**
Loans and notes payable to other parties:			
Including:			
USD-denominated	9.25%-14%; LIBOR+0.55% – 2.75%	139,835	1,230
CZK-denominated	PRIBOR+0.5%-0.85%	68,875	36,878
RUR-denominated	12%	753	5,476
EUR-denominated	EURIBOR +0.55%; 5.0%	221	4,970
Other		-	5,030
		209,684	**53,584**
Total		**$ 254,246**	**$ 157,555**

Revolving credit facilities

In December 2005, Intracom Telecom entered into several EUR-denominated loan agreements with a number of financial institutions, including Societe Generale – Geniki Bank, National Bank of Greece, Emporiki Bank, Alfa Bank, Piraeus Bank, Aspis Bank, and Eurobank. The loans bore interest from EURIBOR+0.9% to EURIBOR+1.25% and have been repaid in January-February 2008.

During the year ended December 31, 2006, SITRONICS TS CR entered into a number of credit facility agreements with ABN Amro Bank, limited in aggregate to $30.0 million. The facilities can be drawn in EUR, USD or CZK in the form of short-term loans, overdrafts, letters of guarantees or bank guarantees. As of December 31, 2007, SITRONICS TS CR has drawn $16.6 million in CZK under the facilities. The drawdowns bear interest rate of PRIBOR + 0.9% per annum. The drawdowns mature in January 2008, but were prolonged for a further 3 months based on the existing terms of the facilities.

During the year ended December 31, 2006, Sitronics Consumer Electronics issued a USD-denominated promissory note to MBRD-Finance, a Sistema subsidiary, bearing an interest rate of 11% and maturing upon demand. In 2007, the promissory note was renewed with a rate of 14% and sold to a third party. The amount outstanding under this agreement comprised $5.0 million and $5.4 million, as of December 31, 2007 and 2006, respectively.

USD and RUB-denominated loans and notes payable to Sistema and subsidiaries

During the year ended December 31, 2007, Sitronics Management entered into a RUR-denominated short-term loan agreement with Sistema subsidiary -FINEXKORT-M. The loan is interest free and matures upon demand. The amount outstanding under this agreement comprised $10.4 million as of December 31, 2007.

Loans and notes payable to other parties

In November 2007, SITRONICS entered into a USD-denominated loan agreement with DRESDNER BANK AG, bearing an interest rate of 9.25% per annum. As of December 31, 2007, the outstanding amount comprised $125.0 million. The agreement matures in November 2008.

During the year ended December 31, 2007, SITRONICS TS CR entered into two CZK and one USD-denominated loan agreements with HSBC Bank, Citibank and ING Bank bearing interest rates of PRIBOR+0.5%, PRIBOR+0.85%, and LIBOR+0.55%, respectively and maturing in June 2008 and September 2008. As of December 31, 2007, the amounts outstanding under these agreements comprised $15.0 million, $53.9 million, and $4.5 million, respectively.

During the year ended December 31, 2007, Smart Cards entered into a USD-denominated loan agreement with Kommerzbank (Eurasia) bearing interest of LIBOR+2.75% and maturing in April 2008. As of December 31, 2007, the amount outstanding under this agreement comprised $5.0 million. The loan agreement was prolonged till April 2009.

18. LONG-TERM DEBT

Long-term debt as of December 31, 2007 and 2006 consisted of the following:

	Currency	Annual interest rate (Actual at December 31, 2007)	2007	2006
Russian bonds	RUR	10%	$ 122,219	$ -
Syndicated loan to Intracom Telecom	USD	LIBOR+1.5%	120,261	121,200
Science and Industrial Policy Department of the Moscow Government	RUB	2.9%	8,840	8,241
BAWAG Bank	CZK	Pribor+0.35%	2,328	2,159
Other LT	various	0-3.33%	4,348	2,371
Eurobonds	USD	-	-	199,526
Syndicated loan to Conklin Corporation	USD	LIBOR+1.35%	-	7,404
			257,996	**340,901**
Less amounts maturing within one year			(175)	(9,935)
Total			**$ 257,821**	**$ 330,966**

Eurobonds – In March 2006, SITRONICS Finance S. A. (“SITRONICS Finance”), a 100% subsidiary of SITRONICS issued $200.0 million notes bearing 7.875% interest rate at 99.7% of par. The notes were fully and unconditionally guaranteed by SITRONICS and matured in March 2009. SITRONICS Finance was required to make interest payments on the notes semi-annually in arrears in March and September of each year. The notes were listed on the London Stock Exchange. Proceeds received from the notes were $199.4 million and the related issuance costs in the amount of $1.8 million were capitalized. In June 2007, Sitronics Finance S.A. redeemed the outstanding notes. SITRONICS redeemed approximately US$ 100.0 million of the notes using its IPO proceeds. The remaining amount was financed through short-term bank financing. On repurchase, the Group incurred early extinguishment loss of $6.3 million and the remaining portion of the related issuance costs previously capitalized of $1.3 million were expensed.

Russian bonds – In September 2007, SITRONICS issued ruble-denominated bonds. The 3-year RUB 3 billion issue was priced at face value with an annual coupon of 10% and a put option after 1.5 years at which time the coupon rate could be reset. Coupon payments will be made on a semi-annual basis.

Syndicated loan to Intracom Telecom – In 2002, Intracom Holdings S.A. entered into a syndicated loan agreement with a number of banks (Alphabank, National Bank of Greece, Commercial Bank of Greece, Societe Generale – Geniki Bank). In 2005, the outstanding balance under the loan in the amount of $121.2 million was transferred to Intracom Telecom. The loan bears an interest of LIBOR+1.5% per annum and is payable in 2009. The loan is guaranteed by Intracom Holding S.A. and contains certain restrictive covenants, including, but not limited to, compliance with certain financial ratios. Management believes that as of the date of these financial statements, Intracom Telecom is in compliance with all existing covenants.

Science and Industrial Policy Department of the Moscow Government – In December 2005, Mikron entered into a credit facility with the Science and Industrial Policy Department of the Moscow Government. The facility is limited to 217 million RUB ($8.8 million as of December 31, 2007). The facility bears interest determined as one fourth of the official rate of the Central Bank of Russia (2.9% as of December 31, 2007) and matures in 2010. As of December 31, 2007, $8.8 million was outstanding under this credit facility.

BAWAG – In 2003, SITRONICS TS CR obtained a CZK-denominated loan of $2.3 million from BAWAG Bank. The loan bears interest of PRIBOR + 0.35% per annum and matures not later than 2018. Land and buildings of SITRONICS TS CR and its subsidiary, Tesla tech, with an approximate carrying value of $5.8 million and shares of Tesla tech are pledged as security under the agreement.

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

The following table presents the aggregate scheduled maturities of the total debt outstanding as of December 31, 2007:

Year ended December 31,		
2008	$	175
2009		120,429
2010		131,235
2011		4,226
2012		176
Thereafter		1,755
Total	**$**	**257,996**

19. CAPITAL LEASE OBLIGATIONS

The capital lease obligations as of December 31, 2007 and 2006 are presented as follows:

		2007		**2006**
Total minimum lease payments (undiscounted)	$	3,688	$	7,053
Less: amount representing interest		(136)		(336)
Present value of net minimum lease obligations		3,552		6,717
Less: current portion of lease obligations (Note 16)		(2,675)		(3,643)
Non-current portion of lease obligations	**$**	**877**	**$**	**3,074**

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

Future rental payments under capital leases in effect as of December 31, 2007, are as follows:

Year ended December 31,		
2008	$	2,811
2009		835
2010		28
2011		14
Less: amount representing interest		(136)
Total	**$**	**3,552**

20. POSTRETIREMENT BENEFITS

According to the Greek labor legislation, Intracom Telecom is obliged to provide certain post-retirement benefits to its employees (Note 2). The pension plan is unfuned.

The following are the key assumptions used in determining the projected benefit obligation and net periodic pension expense:

Discount rate	4.7% p.a.
Annual payroll increase	4.5% p.a.
Long-term inflation	3.0% p.a.
Staff turnover for voluntary resignation (for ages below 51)	2.0% p.a.
Staff turnover for dismissal (for ages below 51)	0.2% p.a.

The change in the projected benefit obligation for the year ended December 31, 2007 is presented in the following table:

		2007		**2006**
Projected benefit obligation, beginning of the year	$	6,790	$	4,066
Service cost		680		523
Interest cost		297		253
Amendments		570		787
Benefit payments		(861)		(512)
Actuarial (gain)/ losses		(950)		1,085
Currency translation effect		730		588
Projected benefit obligation, end of the year	**$**	**7,256**	**$**	**6,790**

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

Year ended December 31,		
2008	$	703
2009		776
2010		849
2011		922
2012 and thereafter		4,006
Total	**$**	**7,256**

The components of the net periodic benefit costs for the years ended December 31, 2007 and 2006 are as follows:

		2007		2006
Service cost	$	680	$	523
Interest cost		297		253
Net periodic benefit cost	**$**	**977**	**$**	**776**

Amounts recognized in other comprehensive income for the years ended December 31, 2007 and 2006 are as follows:

		2007		2006
Unrecognized gain / (loss)	$	484	$	(554)
Unrecognized prior service cost		-		-
Total recognized in other comprehensive income	**$**	**484**	**$**	**(554)**

As of December 31, 2007, the long-term portion of post-retirement benefit liabilities amounted to $6.6 million (Note 21), while the short-term portion amounted to $0.7 million (Note 16).

21. OTHER LONG-TERM LIABILITIES

As of December 31, 2007 and 2006, other long-term liabilities of the Group comprised the following:

		2007		2006
Post-retirement benefit obligations, long-term portion (Note 20)	$	6,553	$	6,210
Accounts payable for construction		3,225		3,682
Warranty obligations, long-term portion		1,998		1,831
Total	**$**	**11,776**	**$**	**11,723**

22. DERIVATIVE FINANCIAL INSTRUMENTS

Intracom Telecom – In 2002, Intracom Holdings S.A. entered into a swap agreement with Alpha Bank to eliminate the foreign currency exposure risk and to effectively convert a syndicated loan of $121.2 million at a rate of three months LIBOR +1.50% to EUR 118.0 million ($155.5 million as of December 31, 2006) bearing three months EURIBOR +1.59% interest rate (Note 18). The terms of the swap matched the terms of the underlying debt. The arrangement did not qualify for hedge accounting. In 2005, the loan and the swap were transferred to Intracom Telecom. The Group recorded a liability of $52.6 million and $34.3 million as at December 31, 2007 and 2006, respectively. In relation to this instrument the Group recorded a loss of $18.3 million and $15.5 million for the year ended December 31, 2007 and 2006, respectively, which was offset by the foreign exchange gain resulting from the underlying debt.

23. INCOME TAX

The Group's provision for income taxes for the years ended December 31, 2007 and 2006 was as follows:

	2007	2006
Current tax expense	$ 22,348	$ 38,910
Deferred income tax expense/(benefit)	5,050	(6,622)
Total income tax expense	**$ 27,398**	**$ 32,288**

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

	2007	2006
Income tax provision computed on net (loss) / income before taxes and minority interests at Russian statutory rate	$ (46,061)	$ 23,576
Adjustments due to:		
Expenses not deductible for tax purposes	24,138	13,976
Valuation allowance	40,250	-
Effect of sale of Corona	(2,310)	-
FIN 48	3,257	-
Effect of different tax rates	(2,323)	(2,819)
Stock based compensation	8,290	-
Foreign currency transactions differences	2,157	(2,445)
Income tax expense	**$ 27,398**	**32,288**

Temporary differences between the tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities as at December 31, 2007 and December 31, 2006:

	2007	2006
Deferred tax assets		
Property, plant and equipment	$ 32,685	$ 35,483
Tax losses carried forward	29,200	8,490
Accounts receivable	10,915	1,625
Accrued expenses	8,926	3,348
Inventories and spare parts	4,659	2,691
Valuation allowance	(40,250)	-
Other	407	948
Total deferred tax assets	**$ 46,542**	**$ 52,585**
Deferred tax liabilities		
Undistributed untaxed profit	(14,191)	(13,325)
Property, plant and equipment	(14,631)	(13,424)
Intangible assets	(4,112)	(9,479)
Other	(3,849)	(862)
Total deferred tax liabilities	**$ (36,784)**	**$ (37,090)**
Net deferred tax assets, current	$ 7,203	$ 6,517
Net deferred tax assets, long-term	$ 27,553	$ 19,887
Net deferred tax liabilities, current	$ (9,380)	$ (607)
Net deferred tax liabilities, long-term	$ (15,618)	$ (10,302)

As of December 31, 2007, deferred tax assets relating to tax losses carried forward in the amount of $1.1 million are attributable to Intracom Telecom, and $26.2 mln to Sitronics Telecom Solutions CZ. The remaining balance of deferred tax assets is attributable to the Russian subsidiaries in the Consumer Services and Products segment. These tax losses can be utilized within 10 years in Russia, till 2011 in Greece, till 2012 in Czech Republic.

The Group has recognised a valuation allowance of $ 40.3 million in 2007 in relation to tax losses and other deferred tax assets.

The Group accounts for uncertain tax positions in accordance with FIN 48 starting from January 1, 2007. As a result of the adoption of the requirements of FIN 48 the Group recorded an additional tax receivable of $1.3 million and an additional liability of $16.9 million as at December 31, 2007 (Note 16). The resulting tax assets and liabilities are attributed to retained earnings as at January 1, 2007 in the amount of $12.3 million and to the consolidated statement of operations for the year ended December 31, 2007 in the amount of $3.3 million.

According to the requirements of FIN 48, the Group finished its evaluation of its income tax benefits for the periods prior to January, 1, 2007. As a result, the Group recognized $12.3 million of the relevant provision directly in retained earnings.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

		Unrecognised tax benefit
Balance as at January 1, 2007	$	(4,777)
Additions based on tax positions arising in current year		(937)
Balance as at December 31, 2007		**(5,714)**

As at December 31, 2007, the Group also accrued interest and penalties related to unrecognized tax benefit of $9.8 million.

The Group considers it reasonably possible that approximately $ 6.0 million of the unrecognised income tax benefit will be reversed within the next twelve months due to expiration of the statute of limitations.

The Group classifies accrued penalties and interest related to unrecognized tax benefits as a component of income tax expense.

24. EQUITY TRANSACTIONS

In January 2007, SITRONICS purchased 188,683,000 of its own shares from NED ELECTRONICS for consideration of $36.0 million. The transaction was recorded as an increase in treasury stock.

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

Proceeds from the offering, net of underwriters' discount and related costs, amounted to $352.1 million, of which $58.8 million were reflected as share capital based on the par value of each share and $293.3 million as additional paid-in capital.

25. STOCK OPTIONS

In July 2007, the Group established a stock option plan for certain of its employees. Originally the share pool consisted of 627,783,968 shares, representing 6.57% of the share capital. The shares are to be issued from the Group's treasury stock. The options are contingent on the continued employment of the grantees with the Group or, in some cases, with Sistema. According to the terms of the plan, the grantees are entitled to buy option shares in four instalments, representing 16.7% of the total amount due to each person during the years 2007, 2008, 2009, and the remaining amount of 49.9% in 2010. The exercise price is 1 RUB per share. All the participants are restricted from selling their shares until 2010.

In July 2007, 140,713,101 stock options were exercised under the stock option program for a consideration of $5.6 million (representing 1 Ruble per share). The Group transferred the equivalent number of treasury shares to the participants. The transaction resulted in a decrease in retained earnings in the amount of $3.9 million.

From the grant date till December 2007, a number of the Program participants left the Group and forfeited options exercisable in future periods. During December 2007, a number of new employees were added to the list of participants.

The total compensation cost of $20.4 million was credited to additional paid-in capital.

The activity relating to the stock options for the year ended December 31, 2007 was as follows:

	Number of shares	Exercise price
Outstanding at December 31, 2006	-	-
Options granted	842,593,430	0.04
Options exercised	(140,713,103)	0.04
Options forfeited	(163,211,836)	-
Outstanding at December 31, 2007	538,668,491	0.04

The assumptions used for the Black-Scholes model for each option are summarized in the table below:

Assumptions used in Black-Scholes Model	**Option 1**	**Option 2**	**Option 3**	**Option 4**
Grant date fair value	0.14	0.14	0.14	0.14
Excercise price	0.04	0.04	0.04	0.04
Option lifetime, years	0.0082	1.0103	2.0096	2.6749
Expected volatility p.a.	27.1%	27.1%	27.1%	27.1%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free rate p.a.	4.5%	5.3%	5.8%	5.9%
Exercise date	5 July 2007	5 July 2008	5 July 2009	5 March 2010

Assumptions on the expected volatility have been made on the basis of the average volatility of four different peer companies. The volatility for each of these companies was calculated based on quotes for the 3 years prior to the date of the grant, and volatility was based on daily observations of share prices for each peer company. The aggregate intrinsic value of the options outstanding at the December 31, 2007 was $39.9 million.

As of December 31, 2007, there was $17.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a 3-year period.

The cost of the Plan for the year ended December 31, 2007 amounts to $20.4 million and is shown within general and administrative expenses in the consolidated statements of operations.

SFAS 123R stipulates that entities should recognize a deferred tax asset or liability resulting from implementing the stock option plan. According to Russian tax regulations income tax is payable on the exercise date on the difference between the fair value of the stock exercised and the actual tax cost of the stock exercised, calculated using the LIFO method.

The Group has calculated the deferred tax liability arising from the stock option plan using the fair value estimations as described above and using the tax cost of the stock. The resulting income tax expense is allocated to periods using the same method for allocation of the stock option expense. The deferred tax liability as of December 31, 2007 amounted to $3.3 million.

26. SEGMENT INFORMATION

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

As at December 31, 2006, the Group had five reportable segments: Telecommunication Solutions, Information Technologies Solutions, Microelectronic Solutions, Electronic Manufacturing Services and Consumer Electronics. During the year ended December 31, 2007, the Group has combined the Consumer Electronics and the Electronic Manufacturing Services business into one, and decisions and performance assessment were made on the combined level of the two previously separated segments. These segments were combined as a single segment as part of the restructuring program in the business and renamed to Consumer Services and Products. The classification of the business entities by segments,

mentioned above, is based on the nature of the production process and product specification of each segment. The Group's management evaluates performance of the segments based on their operating income. The 2006 segment information has been presented in a manner which is consistent with the revised segment reporting.

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

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the years ended December 31, 2007 and 2006 is as follows:

For the year ended December 31, 2007	**Telecom-munication Solutions**	**Information Techno-logies Solutions**	**Micro-electronic Solutions**	**Consumer Services and Products**	**Corporate**	**Total**
Net sales to external customers	$569,815	$763,308	$217,164	$69,318	$-	$ 1,619,605
Intersegment sales	-	3,101	88	1,564	-	4,753
Depreciation and amortization	(44,558)	(3,027)	(5,511)	(2,894)	(462)	(56,452)
Operating (loss)/ income	(118,838)	17,940	32,922	(58,273)	(31,332)	(157,581)

For the year ended December 31, 2006	**Telecom-munication Solutions**	**Information Techno-logies Solutions**	**Micro-electronic Solutions**	**Consumer Services and Products**	**Corporate**	**Total**
Net sales to external customers	$708,243	$559,438	$122,639	$220,327	$87	$1,610,734
Intersegment sales	69	1,774	207	3,169	3	5,222
Depreciation and amortization	(33,937)	(5,400)	(2,668)	(1,897)	(146)	(44,048)
Operating income/(loss)	114,511	15,595	23,771	(16,145)	(9,494)	128,238

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

	2007	**2006**
Total segment operating income	$ (157,581)	$ 128,238
Interest income	14,397	11,060
Interest expense	(39,885)	(32,065)
Foreign currency transactions loss, net	(8,852)	(9,002)
Other non-operating losses	(1,336)	-
Consolidated (loss)/ income before income tax and minority interests	**$ (193,257)**	**$ 98,231**

Information about the Group's revenues attributed to different geographic areas for the years ended December 31, 2007 and 2006 is shown below. The revenue is attributed by the location of registered office of the customer.

	2007	2006
Russia	$ 599,155	$ 702,227
Ukraine	325,386	303,921
Greece	218,410	175,546
Central and Eastern Europe	306,986	248,809
Asia-Pacific region	70,479	116,872
Middle East and Africa	76,062	45,812
Others	23,127	17,547
Total sales to external customers	**$ 1,619,605**	**$ 1,610,734**

As of December 31, 2007 and 2006, the total assets of reportable segments comprised the following:

	2007	2006
Telecommunication Solutions	$ 990,975	$ 1,009,520
Information Technologies Solutions	252,138	177,284
Microelectronic Solutions	486,139	205,116
Consumer Services and Products	112,821	220,844
	1,842,073	**1,612,764**
Corporate	679,103	342,690
Intersegment eliminations	(633,880)	(308,087)
Total assets	**$ 1,887,296**	**$ 1,647,367**

For the years ended December 31, 2007 and 2006, the Group's additions to property, plant and equipment and intangible assets, including assets acquired in conjunction with the acquisition of Intracom Telecom, comprised the following:

	2007	2006
Telecommunication Solutions	$ 35,788	$ 200,145
Information Technologies Solutions	937	1,103
Microelectronic Solutions	190,045	56,491
Consumer Services and Products	7,743	3,193
Corporate	1,469	429
Total additions to property, plant and equipment and intangible assets	**$ 235,982**	**$ 261,361**

As of December 31, 2007 and 2006, the Group's property, plant and equipment and intangible assets, net of accumulated depreciation and amortization in respect of their geographical location was as follows:

	2007	2006
Russia	$ 343,984	$ 134,605
Greece	137,128	129,392
Czech Republic	58,739	61,444
Romania	19,846	19,846
Ukraine	6,700	10,256
Other	4,062	3,090
Total property, plant and equipment and intangible assets, net of accumulated depreciation and amortization	**$ 570,459**	**$ 358,633**

27. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2007 and 2006, the Group entered into transactions with related parties as follows:

	2007	2006
Sales of software and telecommunication equipment	$ 106,879	$ 263,744
Systems integration	148,138	61,142
Sales of smart cards	41,516	34,414
Interest income	5,517	2,176
Interest expense	(1,326)	(309)
Operating services consumed	(6,293)	(6,014)
Sales of handsets	-	2,757
Other revenue	-	1,516

Sales of software and telecommunication equipment

Mobile TeleSystems ("MTS") – During the years ended December 31, 2007 and 2006, Sitronics Telecom Solutions CZ and Sitronics Telecom Solutions entered into agreements with MTS, a subsidiary of Sistema, and its affiliates Mobile TeleSystems Belarus ("MTS Belarus"), and Ukrainian Mobile Communications ("UMC") for sale of a billing system, a communications software support system and sale of telecommunication equipment. Pursuant to these contracts, SITRONICS TS sold software, equipment and related services for approximately $68.0 million and $219.8 million during the years ended December 31, 2007 and 2006, respectively.

Comstar UTS – During the years ended December 31, 2007 and 2006, Sitronics Telecom Solutions CZ and Sitronics Telecom Solutions entered into several agreements with subsidiaries of Sistema currently comprising Comstar UTS (MGTS, MTU-Inform, Comstar). Pursuant to these contracts, SITRONICS TS sold telecommunication equipment and rendered system maintenance services for approximately $31.0 million and $24.9 million during the years ended December 31, 2007 and 2006, respectively.

Multiregional TransitTelecom (MTT) – During the years ended December 31, 2007 and 2006, Sitronics Telecom Solutions Czech Republic sold telecommunication equipment to MTT, an affiliate of Sistema, for $4.0 million and $0.4 million, respectively.

Systems integration

During the years ended December 31, 2007 and 2006, Kvazar-Micro.ru provided systems integration services to MTS and other Sistema subsidiaries and affiliates for $148.1 million and $61.1 million, respectively.

Sales of smart cards

During the year ended December 31, 2007 and 2006, Smart Cards sold smart cards to MTS for $41.5 million and 34.4 million, respectively.

Interest income

During the year ended December 31, 2007, the Group has earned $5.5 million from deposits placed at MBRD.

Interest expense

During the years ended December 31, 2007 and 2006, the Group had several short-term and long-term loans outstanding from Sistema and its subsidiaries, including MBRD (Note 17). Interest expense on these loans amounted to $1.3 million and $0.3 million for the years ended December 31, 2007 and 2006, respectively.

Transactions and balances with Intracom Holdings S. A.

During the year ended December 31, 2007, Intracom Telecom entered into transactions with subsidiaries and affiliates of Intracom Holdings S. A., its minority shareholder. Revenues from these transactions amounted to $146.8 million; the corresponding balances of accounts receivable and advances received as of December 31, 2007 comprised $79.2 million and $0.8 million, respectively.

In addition, Intracom Telecom's expenses for services consumed and inventories purchased from these entities amounted to $32.1 million for the year ended December 31, 2007. As of December 31, 2007, trade and other payables to subsidiaries and affiliates of Intracom Holdings S. A. were $50.6 million.

28. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Group leases land and buildings and vehicles from other parties through contracts, which expire in various years through 2019. Rental expenses under these leases were $8.0 million and $3.3 million for the years ended December 31, 2007 and 2006, respectively, and were included in operating expenses in the consolidated statements of operations.

Future minimum rental payments under operating leases in effect as of December 31, 2007, were as follows:

Year ended December 31,	
2008	8,180
2009	6,203
2010	4,060
2011	2,586
2012	1,665
Thereafter	12,030
Total	**$ 34,724**

Capital Commitments

As at December 31, 2007, Mikron has purchase obligations for supply of equipment in the amounts of approximately $9.4 million.

As at December 31, 2007, the Group has capital commitments to participate in the Coral/ Sistema Strategic Fund, LLC in the amount of $8.9 million (Note 11).

Legal Proceedings

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

Importation of Goods

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

29. CONCENTRATIONS

Credit Risks

During the years ended December 31, 2007 and 2006, the Group's sales to Sistema's subsidiaries and affiliates amounted to $297.6 million and $363.6 million, respectively, or 18.3% and 22.6% of the Group's consolidated revenues for the respective periods. The Group's trade receivables from Sistema's subsidiaries and affiliates as of December 31, 2007 and December 31, 2006 are disclosed in Notes 6 and 12; the Group's cash and short-term investments balances with Sistema's subsidiaries and affiliates are disclosed in Notes 4 and 5, respectively.

Kvazar-Micro collects proceeds from the distribution of computer hardware products in the RF and Ukraine through a small number of independent dealers. Amounts due from these dealers as of December 31, 2007 and 2006 were $50.9 million and $43.7 million, respectively. During the years ended December 31, 2007 and 2006, revenues of Kvazar-Micro from distribution of products purchased under a distribution agreement with Intel International B.V. (“Intel”) amounted to $216.7 million and $207.7 million, respectively, or 13.3% and 12.9% of the Group’s consolidated revenues for the respective periods.

Intracom Telecom has a concentration of revenue and receivables among a few significant customers, including Intracom Holdings S.A. Five customers in this segment accounted for revenues of $188.4 million in the year ended December 31, 2007, which is 11.6% of the Group's consolidated revenues for this period. Trade receivables from these customers amounted to $56.1 million as of December 31, 2007.

Operating Environment

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

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

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

Industry Risks

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

30. SUBSEQUENT EVENTS

Acquisition of an Additional Stake in Kvazar-Micro – In February 2008, the Group announced that it has started the process of acquisition of an additional 49% stake in Kvazar-Micro Corporation B.V. (KMC). During the first stage of the transaction, 36% of the KMC's issued shares will be acquired from Melrose Holding (a Company owned by current and former management of KMC) for $ 116.9 million. The acquisition will be financed by a combination of cash and SITRONICS' stock. As a result of the transaction, Melrose Holding Company will acquire a 3.07% stake in JSC SITRONICS. Kvazar-Micro will acquire the remaining 13% of its shares from Melrose Holding Company within two years.

Borrowing from Dresdner Bank – In March 2008, the Group signed a US$ 75.0 million one-year loan agreement with Dresdner Bank AG as Arranger and Agent and Alexandria Capital plc as Original lender. The loan has an annual interest rate of 9.25%. The proceeds of the loan will be used to refinance certain current liabilities of SITRONICS and also to finance the working capital needs of its subsidiaries.