IMPORTANT: You must read the following before continuing. The following applies to the prospectus (the "document") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the document. In accessing the document, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. The document has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein.

THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS DOCUMENT MAY ONLY BE DISTRIBUTED TO PERSONS LOCATED OUTSIDE THE UNITED STATES OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view this document or make an investment decision with respect to the securities, you must be (1) a person that is outside the United States or (2) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this document, you shall be deemed to have represented to us that you are outside the United States or that you are a QIB and that you consent to delivery of such document by electronic transmission. You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of JSC SITRONICS in such jurisdiction. Under no circumstances shall this document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this document who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the document. The information contained in the document is directed solely at persons (1) outside the United Kingdom, (2) within the United Kingdom having professional experience in matters relating to investments or to persons of a kind described in Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons") or (3) in member states of the European Economic Area who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive. Persons who are not relevant persons must not rely on or act upon the information contained in the document.

This document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the underwriters, as named in this document, nor any person who controls an underwriter nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from Credit Suisse Securities (Europe) Limited, Goldman Sachs International or Renaissance Securities (Cyprus) Limited.

1,675,000,000 Ordinary Shares

Offering of Ordinary Shares and Global Depositary Receipts

Offer price: $0.24 per share and $12.00 per GDR

We are JSC SITRONICS ("Sitronics"). We are offering 1,549,839,200 newly issued ordinary shares of Sitronics with a nominal value of one ruble per share, in the form of global depositary receipts ("GDRs"), with one GDR representing 50 shares. The Selling Shareholders, as named in "The Offering," are offering 125,160,800 ordinary shares in the form of shares and GDRs.

The GDRs are being offered in the United States to qualified institutional buyers ("QIBs"), as defined in, and in reliance on, Rule 144A under the US Securities Act of 1933 ("Securities Act"), and outside the United States and the Russian Federation in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S"). The shares are being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S.

We have granted to the underwriters, as named in "Subscription and Sale" (collectively, the "Underwriters"), an option (the "Over-allotment Option"), exercisable within 30 days after the announcement of the offer price, to purchase up to an additional 125,000,000 ordinary shares in the form of GDRs at the offer price, solely to cover over-allotments in the offering.

Our existing ordinary shares have been admitted to list "V" on the Moscow Stock Exchange and on the Russian Trading System Stock Exchange ("RTS") but are not traded. Prior to the offering described herein, there has been no market for the GDRs.

This document upon approval by the UK Financial Services Authority ("FSA") will comprise a prospectus relating to Sitronics prepared in accordance with the Prospectus Rules of the FSA made under section 73A of the Financial Services and Markets Act 2000 ("FSMA"). Application has been made (1) to the FSA, in its capacity as competent authority under the FSMA for a listing of 48,360,435 GDRs, consisting of up to 30,996,784 GDRs to be issued on or about February 12, 2007 ("Closing Date"), and up to an additional 17,363,651 GDRs to be issued from time to time against the deposit of shares (to the extent permitted by law) with Deutsche Bank Trust Company Americas, as depositary ("Depositary") to be admitted to the official list of the FSA ("Official List") and (2) to the London Stock Exchange plc ("London Stock Exchange") for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on a when and if issued basis on or about February 7, 2007. Admission to the Official List and to trading on the regulated market is expected to take place on or about February 13, 2007. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if admission does not take place and will be at the sole risk of the parties concerned.** Application has also been made to have the Rule 144A GDRs designated eligible for The PORTAL Market of the Nasdaq Stock Market, Inc ("PORTAL"). Trading in the GDRs on the London Stock Exchange and PORTAL is expected to commence on or about February 13, 2007.

Trading in the GDRs on the London Stock Exchange will be subject to cancellation until the placement report for the newly issued shares being offered by us is registered by the Russian Federal Service for the Financial Markets. We have undertaken that if the placement report is not registered within 60 days after the Closing Date (or such later date as we agree with the Underwriters), we will deliver to the Depositary the proceeds of the GDRs sold by us and the Underwriters have agreed to deliver to the Depositary the underwriting commissions related to the GDRs sold by us. The Depositary will then distribute the funds thus received by it to the then holders of the GDRs pro rata or on such other basis as it deems practicable, subject to the terms of the Deposit Agreements relating to GDRs. The amount per GDR ultimately returned to such holders of GDRs will be less than the initial public offering price per GDR, and may be subject to withholding taxes and delays. See "Registration of Placement Report."

See "Risk Factors" beginning on page 8 to read about factors you should consider before buying the shares and GDRs. The GDRs are of a specialist nature and should only be bought and traded by investors who are particularly knowledgeable in investment matters.

The offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The shares and the GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except to QIBs by certain U.S. selling agents of the Underwriters in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, or outside the United States to certain persons in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the shares and the GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a discussion of certain restrictions on transfers of the shares and the GDRs, see "Description of the Global Depositary Receipts," "Subscription and Sale" and "Settlement and Delivery."

The shares and the GDRs are offered by the Underwriters when, as and if delivered to and accepted by the Underwriters and subject to their right to reject orders in whole or in part. The GDRs will be evidenced by a Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), and a Master Regulation S GDR Certificate registered in the name of BT Globenet Nominees Limited, a nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream"). It is expected that delivery of the GDRs will be made against payment therefore in U.S. dollars in same day funds through the facilities of DTC, Euroclear and Clearstream on or about February 12, 2007. See "Settlement and Delivery."

Joint Global Coordinators and Joint Bookrunners

Credit Suisse **Goldman Sachs International** **Renaissance Capital**

Co-Lead Manager

HSBC

Prospectus dated February 7, 2007

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

Each prospective investor, by accepting delivery of this prospectus, agrees to the following. This prospectus is being furnished by Sitronics solely for the purpose of enabling a prospective investor to consider the purchase of the shares and GDRs. Any reproduction or distribution of this prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the shares and GDRs is prohibited, except to the extent that such information is otherwise publicly available.

None of the Underwriters makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this prospectus. This prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of Sitronics, the Selling Shareholders or the Underwriters that any recipient of this prospectus should subscribe for or purchase the shares and GDRs. Each potential subscriber or purchaser of shares and GDRs should determine for itself the relevance of the information contained in this prospectus and its subscription or purchase of shares or GDRs should be based upon such investigation as it deems necessary.

This prospectus, including the financial information included herein, is in compliance with the Prospectus Rules made by the FSA which are compliant with the provisions of Directive 2003/71/EC ("Prospectus Directive") for the purpose of giving information with regard to Sitronics, the shares and GDRs.

Sitronics accepts responsibility for the information contained in this prospectus, and having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of Sitronics' knowledge, in accordance with the facts and contains no omissions likely to affect its import.

In making an investment decision regarding the shares and GDRs, you must rely on your own examination of Sitronics and the terms of the offering, including the merits and risks involved. You should rely only on the information contained in this prospectus. None of Sitronics, the Selling Shareholders or the Underwriters has authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus is accurate as of its date. Sitronics' business, financial condition, results of operations, prospects and the information set forth in this prospectus may have changed since the date of this prospectus.

Sitronics has included its own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed to a third party source, to a certain degree subjective. While Sitronics believes that its own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by Sitronics approximately reflects the industry and the markets in which it operates, there is no assurance that Sitronics' own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

You should not consider any information in this prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisers for legal, tax, business, financial and related advice regarding purchasing the shares and GDRs. Sitronics is not, and the Underwriters are not, making any representation to any offeree or purchaser of the shares and GDRs regarding the legality of an investment in the shares and GDRs by such offeree or purchaser under appropriate investment or similar laws.

Credit Suisse Securities (Europe) Limited, Goldman Sachs International and Renaissance Securities (Cyprus) Limited are acting exclusively for Sitronics and no one else in connection with the offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the offering.

Sitronics may withdraw the offering at any time, and Sitronics, the Selling Shareholders and the Underwriters reserve the right to reject any offer to purchase the shares and GDRs, in whole or in part, and to sell to any prospective investor less than the full amount of the shares and GDRs sought by such investor. The Underwriters and certain related entities may acquire a portion of the shares and GDRs for their own accounts.

The distribution of this prospectus and the offer and sale of the shares and GDRs may be restricted by law in certain jurisdictions. You must inform yourself about, and observe any such restrictions. See "Description of the Global Depositary Receipts" and "Subscription and Sale" elsewhere in this prospectus. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the shares and GDRs or possess or distribute this prospectus and must obtain any consent, approval or permission required for your purchase, offer or sale of the shares and GDRs under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. None of Sitronics, the Selling Shareholders or the Underwriters is making an offer to sell the shares and GDRs or a solicitation of an offer to buy any of the shares and GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted.

NOTICE TO CERTAIN INVESTORS

THE SHARES AND GDRS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE US SECURITIES AND EXCHANGE COMMISSION, OR THE SEC, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE SHARES AND GDRS OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

NOTICE TO UK AND EEA INVESTORS

This prospectus and the offering are only addressed to and directed at persons in member states of the European Economic Area ("EEA"), who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors"). In addition, in the United Kingdom, this prospectus is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or high net worth entities falling within Article 49(2)(a)-(d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). The shares and the GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This prospectus and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not relevant persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

This prospectus has been prepared on the basis that all offers of shares and GDRs other than the offers contemplated in the prospectus in the United Kingdom, once it has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive, will be made pursuant to an exemption under the Prospectus Directive, as implemented in the member states of the EEA, from the requirement to produce a prospectus for offers of shares and GDRs. Accordingly any person making or intending to make any offer within the EEA of shares or GDRs should only do so in circumstances in which no obligation arises for Sitronics or any of the Underwriters to produce a prospectus for such offer. None of Sitronics, the Selling Shareholders or the Underwriters has authorized nor do they authorize the making of any offer of shares or GDRs through any financial intermediary, other than offers made by the Underwriters which constitute the final placement of shares and GDRs contemplated in this prospectus.

Each person in a Member State of the EEA which has implemented the Prospectus Directive (each, a Relevant Member State) who receives any communication in respect of, or who acquires any shares or GDRs to whom any offer is made under the offering will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive; and in the case of any shares or GDRs acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the shares or GDRs acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Global Coordinators has been given to the offer or resale; or where shares or GDRs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those shares or GDRs to it is not treated under the Prospective Directive as having been made to such persons. Sitronics, the Underwriters and their affiliates, and others will rely (and Sitronics acknowledges that the Underwriters and their affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified the Joint Global Coordinators of such fact in writing may, with the consent of the Joint Global Coordinators, be permitted to subscribe for or purchase shares or GDRs.

The Underwriters may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this provision, the expression an "offer of shares or GDRs to the public" in relation to any shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares or the GDRs to be offered so as to enable an investor to decide to purchase or subscribe the shares or the GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO RUSSIAN INVESTORS

The GDRs have not been registered under the law of the Russian Federation "On the Securities Market" dated April 22, 1996, as amended, and are not being offered, sold or delivered directly in the Russian Federation or to any Russian residents except as may be permitted by Russian law.

NOTICE TO JAPANESE INVESTORS

Neither the shares nor the GDRs have been or will be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). Accordingly, no Underwriter may, directly or indirectly, offer or sell shares or GDRs:

- in Japan;
- to, or for the benefit of, any resident of Japan; or
- to, or for the account or benefit of, any persons for reoffering or resale, directly or indirectly in Japan or to, or for the account or benefit of, any resident of Japan,

except, in each case, pursuant to an exemption from the registration requirements of, or otherwise in compliance with the Securities and Exchange Law and other relevant laws and regulations of Japan.

STABILIZATION

IN CONNECTION WITH THE OFFERING, CREDIT SUISSE SECURITIES (EUROPE) LIMITED (OR ANY AGENT OR OTHER PERSON ACTING FOR CREDIT SUISSE SECURITIES (EUROPE) LIMITED), AS STABILIZING MANAGER, MAY OVER-ALLOT OR EFFECT TRANSACTIONS INTENDED TO ENABLE IT TO SATISFY ANY OVER-ALLOCATIONS OR WHICH STABILIZE, MAINTAIN, SUPPORT OR OTHERWISE AFFECT THE MARKET PRICE OF THE GDRS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY COMMENCE ON OR AFTER THE ANNOUNCEMENT OF THE OFFER PRICE AND WILL END NO LATER THAN 30 DAYS THEREAFTER. SUCH TRANSACTIONS MAY BE EFFECTED ON THE LONDON STOCK EXCHANGE AND ANY OTHER SECURITIES MARKET, OVER THE COUNTER MARKET, STOCK EXCHANGE OR OTHERWISE. THERE IS NO ASSURANCE THAT SUCH TRANSACTIONS WILL BE UNDERTAKEN AND, EXCEPT AS REQUIRED BY LAW, CREDIT SUISSE SECURITIES (EUROPE) LIMITED DOES NOT INTEND TO DISCLOSE THE EXTENT OF ALLOTMENTS AND/OR STABILIZATION TRANSACTIONS UNDER THE OFFERING.

CURRENCIES AND EXCHANGE RATES

In this prospectus, references to "U.S. dollars," "USD" or "$" are to the currency of the United States, references to "rubles" or "RUB" are to the currency of the Russian Federation and references to "euro," "EUR" or "€" are to the currency of the member states of the European Union participating in the European Monetary Union.

The following tables show, for the periods indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the Central Bank of the Russian Federation. These rates may differ from the actual rates used in the preparation of our financial statements and other financial information appearing in this prospectus.

	Rubles per U.S. dollar			
Years ended December 31,	**High**	**Low**	**Average[(1)]**	**Period end**
2002	31.86	30.14	31.39	31.78
2003	31.89	29.25	30.61	29.45
2004	29.45	27.75	28.73	27.75
2005	29.00	27.46	28.31	28.78
2006	28.48	26.18	27.03	26.33

(1) The average of the exchange rates on the last business day of each full month during the relevant period.

	Rubles per U.S. dollar	
Months	**High**	**Low**
August 2006	26.84	26.67
September 2006	26.80	26.64
October 2006	26.97	26.73
November 2006	26.78	26.31
December 2006	26.39	26.18
January 2007	26.58	26.45

The exchange rate between the ruble and the U.S. dollar quoted by the Central Bank of the Russian Federation for February 7, 2007 was 26.55 rubles per $1.00. For the convenience of the reader, unless otherwise indicated, we have provided U.S. dollar translations of certain ruble amounts herein using an exchange rate of 26.33 rubles per $1.00, which was the official exchange rate quoted by the Central Bank of the Russian Federation for December 31, 2006. No representation is made that the ruble or U.S. dollar amounts in this prospectus could have been converted into U.S. dollars or rubles, as the case may be, at any particular rate or at all.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

Our presence outside the United States and the United Kingdom may limit your legal recourse against us. We are incorporated under the laws of the Russian Federation. Almost all of our directors and executive officers named in this prospectus reside outside the United States and the United Kingdom, principally in the Russian Federation. Almost all of our assets and the assets of our directors and executive officers are located outside the United States and the United Kingdom, principally in the Russian Federation. As a result, you may not be able to effect service of process within the United States or the United Kingdom upon us or our directors and executive officers or to enforce US or UK court judgments obtained against us or our directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws. In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon US or UK securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognized by courts in the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country in which the judgment is rendered, and/or a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

There is no treaty between the United States and the Russian Federation or the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters. These limitations may deprive you of effective legal recourse for claims related to your investment in the GDRs. Under the terms of the Deposit Agreements (as defined in the "Description of the Global Depositary Receipts"), owners of GDRs agree that any dispute, controversy or cause of action against us and/or the Depositary arising out of the GDRs, the Deposit Agreements or any transaction contemplated therein, the shares or other deposited securities will be referred to and resolved by arbitration in accordance with the rules of the LCIA in proceedings in London, England, as more fully described in the Deposit Agreements. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, but it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including limited experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors, Russian courts' inability to enforce such orders and corruption. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this prospectus may constitute forward-looking statements. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe," "expect," "anticipate," "intend," "estimate," "forecast," "project," "will," "may," "should" and similar expressions identify forward-looking statements. Forward-looking statements appear in a number of places including, without limitation, "Risk Factors," "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and include statements regarding:

- strategies, outlook and growth prospects;
- future plans and potential for future growth;
- integration of our businesses, including recently acquired businesses;
- liquidity, capital resources and capital expenditures;
- growth in demand for our products;
- economic outlook and industry trends;

- developments of our markets;
- the impact of regulatory initiatives; and
- the strength of our competitors.

The forward-looking statements in this prospectus are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control and we may not achieve or accomplish these expectations, beliefs or projections. In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the achievement of the anticipated levels of profitability, growth, cost and synergy of our recent acquisitions, the timely development and acceptance of new products, the impact of competitive pricing, the ability to obtain necessary regulatory approvals, the condition of the Russian economy, political stability in Russia and the impact of general business and global economic conditions.

Except to the extent required by law, neither we, nor any of our agents, employees or advisors intend or have any duty or obligation to supplement, amend, update or revise any of the forward-looking statements contained in this prospectus.

AVAILABLE INFORMATION

For so long as any Rule 144A GDRs (as defined in "Description of the Global Depositary Receipts") or the shares represented thereby, or any Rule 144A Shares (as defined in "Settlement and Delivery") are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted Rule 144A GDRs or Rule 144A Shares or to any prospective purchaser of such restricted Rule 144A GDRs or Rule 144A Shares designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

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Unless the context otherwise requires, references in the prospectus to "we," "our," "us" and the "group" refer collectively to Sitronics and its subsidiaries. Sitronics was incorporated as an open joint stock company under the laws of the Russian Federation on December 9, 2002 under the name JSC "CSC." We changed our name to JSC "Concern Scientific Center" in June 2005 and to JSC "Concern Sitronics" in November 2005. In July 2006, we shortened our name to JSC SITRONICS. We conduct our business through a number of subsidiaries. See "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." We are registered with the Ministry of Taxes and Duties of the Russian Federation under the state registration number 1027735010511. Our principal executive offices are located at 39/5 3rd Tverskaya-Yamskaya Street, Building 1, Moscow 125047, Russian Federation. Our telephone number is +7-495-225-0030. Our Internet address is www.sitronics.com. Information posted on our website and our subsidiaries' and affiliates' websites is not a part of this prospectus.

Our business consists of five divisions which are presented as separate segments in our consolidated financial statements: Telecommunication Solutions, IT Solutions, Microelectronic Solutions, Consumer Electronics and Electronics Manufacturing Services. References in this prospectus to segment revenues are to revenues of the segment excluding intersegment sales, unless otherwise noted. Certain terms used in this prospectus are defined in "Glossary." Unless the context otherwise requires, references to "shares" refer to the ordinary shares of Sitronics.

Certain amounts that appear in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

PROSPECTUS SUMMARY

Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the EEA no civil liability will attach to those persons who are responsible for this summary in any such member state solely on the basis of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus. Where a claim relating to the information contained in this prospectus is brought before a court in a member state of the EEA, the claimant may, under the national legislation of that member state, be required to bear the costs of translating this prospectus before legal proceedings are initiated.

The following summary information should be read as an introduction to the more detailed information appearing elsewhere in this prospectus, including our financial statements and the accompanying notes beginning on page F-1. Any decision by a prospective investor to invest in the shares or GDRs should be based on consideration of the prospectus as a whole, including the information discussed in "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors," and not solely on this summarized information.

Overview

We are a leading provider of telecommunication solutions, including software, equipment and systems integration, IT solutions and microelectronic solutions in Russia and the Commonwealth of Independent States ("CIS"). With the recent acquisition of Intracom Telecom in Greece, we have a strong presence in Eastern Europe and a growing presence in the Middle East and Africa. We are headquartered in Russia and offer a broad range of products in key technology growth areas in our markets. We believe we are particularly well-positioned to exploit fast-growing markets in CIS, Eastern Europe, Middle East and Africa ("EEMEA") as well as Central and Eastern Europe ("CEE"). We serve over 3,500 clients, maintain offices in 25 countries and export our products and services to more than 60 countries. We operate through the following five business divisions:

- **Telecommunication Solutions** develops and manufactures equipment for telecommunication networks, develops software programs to manage the delivery of telecommunication services by operators and provides integration services. This division is comprised of two units, Strom Telecom based in Prague, the Czech Republic and Intracom Telecom based in Athens, Greece. This division accounted for 48.0% of our revenues for the nine months ended September 30, 2006.

- **IT Solutions** is a leading provider of systems integration and IT related services and a leading distributor of computer components and software in the CIS. This division is comprised of Kvazar-Micro based in Kiev, Ukraine. This division accounted for 33.1% of our revenues for the nine months ended September 30, 2006.

- **Microelectronic Solutions** is Russia's leading domestic manufacturer and exporter of integrated circuits ("ICs") and smart cards with advanced IC fabrication technology. This division is mainly comprised of Mikron based in Zelenograd, Russia, considered to be the "Silicon Valley" of the former USSR. This division accounted for 7.4% of our revenues for the nine months ended September 30, 2006.

- **Consumer Electronics** offers audio-video products and portable electronics devices through a distribution network of 170 dealers across Russia and Ukraine under the "Sitronics" brand and other brands. This division accounted for 8.4% of our revenues for the nine months ended September 30, 2006.

- **Electronics Manufacturing Services** provides electronics manufacturing services primarily to multinational companies that operate in the CIS. The division includes three integrated production facilities in Zelenograd, Russia. This division accounted for 3.0% of our revenues for the nine months ended September 30, 2006.

Our revenues were $952.6 million and $1,049.8 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. Our operating income was $142.2 million and $79.5 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively.

Competitive Strengths

Our main competitive strengths are the following:

- We are a leading diversified technology company in our core markets and are well-positioned to capitalize on the strong growth potential in the large and rapidly developing markets where we operate, including Russia and the CIS, Central and Eastern Europe and Middle East and Africa;
- We possess an excellent understanding of our home markets;
- We have a highly-skilled, cost-efficient workforce and strong research and development capabilities;
- We benefit from our relationship with Sistema, an internationally recognized company and a leading provider of consumer services in Russia and the CIS;
- We benefit from support from the Russian government;
- We have diversified into several high-growth business areas which allows us to realize synergies across our business divisions and better meet our customers' needs by providing complete solutions;
- We have strategic alliances and partnerships with global industry leaders; and
- We have an experienced management team with significant experience in acquiring and integrating new businesses.

Strategy

Our primary strategic objective is to maximize shareholder value by continually strengthening our position as one of the leading diversified technology companies in Russia, the CIS and Central and Eastern Europe. In order to achieve our objective, we intend to:

- Strengthen our position in existing markets;
- Penetrate the fastest-growing markets in the EEMEA region;
- Continue to focus on product innovation;
- Broaden our customer base and increase third party sales;
- Expand through acquisitions and strategic investments;
- Expand our cross-selling capabilities across our business divisions;
- Improve the integration and efficiency of our operations;
- Form new partnerships and strategic alliances and develop existing ones with industry leaders;
- Participate in government programs and large infrastructure projects; and
- Continue our cost-effective research and development model.

Risk Factors

An investment in the shares and GDRs is subject to risks relating to our business and industry, economic, political, social and legal risks associated with the Russian Federation and risks arising from the nature of the shares and GDRs and the markets upon which they are expected to be traded, including the following risks:

- We have experienced rapid growth, which must be successfully managed in order to viably expand our operations;
- We may not be able to successfully integrate acquired businesses;
- Our business strategy contemplates further geographical expansion, and our future growth depends on the execution of this strategy;
- Our success depends on our senior management team and other key personnel, as well as on highly skilled employees that may be difficult to hire and retain;

- Our controlling shareholder has the ability to take actions that may conflict with the interests of other holders of our shares and GDRs;
- We depend on Sistema for a substantial portion of our sales and our overall development;
- Our quarterly operating results may fluctuate, which could have a material adverse effect on our business, financial condition and results of operations;
- Certain of our products may be subject to a general pattern of price decline, which could have a material adverse effect on our business, financial condition and results of operations;
- Volatility in the communications equipment industry or fundamental changes in the telecommunications or IT markets may affect sales and, as a result, we could experience declines in our operating results;
- Our products may become obsolete if new or modified products are not developed;
- We operate in highly competitive industries;
- Several of our businesses operate at very low profitability levels;
- We depend on relationships with certain suppliers and vendors;
- Shortages of components and materials may delay or reduce our sales and increase our costs;
- Our business could be materially adversely affected if we fail to obtain or renew necessary licenses and permits or fail to comply with the terms of our licenses and permits;
- Our substantial investments in research and development may not lead to timely improvements in technology and we may not have sufficient resources to invest in the level of research and development that is required to remain competitive;
- Production overcapacity and oversupply in the industries in which we operate could cause us to under-utilize our manufacturing facilities and could result in downward pressure on prices;
- If our manufacturing processes are delayed or disrupted, our business, financial condition and results of operations could be materially adversely affected;
- Our information technologies subsidiary, Kvazar Micro, uses third parties to import various components into the CIS and any challenge to this practice may have a material adverse effect on our business, financial condition and results of operations;
- Our lengthy sales cycle makes it difficult to anticipate the timing of sales;
- Our accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting and our independent auditor has noted certain matters relating to significant deficiencies in the design and operation of our internal controls;
- If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition and results of operations;
- Voting rights with respect to the shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law;
- Because there has been no prior active public trading market for the shares or GDRs, the offering may not result in an active or liquid market for the shares and GDR, and their price may be highly volatile; and
- Following the offering you may not be able to deposit shares in the GDR Program in order to receive GDRs.

Selected Financial Data

The financial data set forth below as of December 31, 2003, 2004 and 2005, and for the years then ended have been derived from our audited consolidated financial statements. The financial data set forth below as of September 30, 2006, and for the nine months ended September 30, 2005 and 2006 have been derived from our unaudited interim consolidated financial statements. Our reporting currency is the U.S. dollar and we prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The unaudited interim consolidated financial statements reflect all normal and recurring adjustments that are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Results of operations for the nine months ended September 30, 2006 are not necessarily indicative of results for the full year ended December 31, 2006, for any other interim period or for any future fiscal year. The financial data below should be read in conjunction with our consolidated financial statements included elsewhere in this prospectus.

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	(in thousands of U.S. dollars, except per share data and number of shares)				
Consolidated statements of operations data					
Revenue	99,055	473,592	952,569	634,208	1,049,790
Cost of sales, exclusive of depreciation and amortization shown separately below	(55,774)	(397,263)	(715,634)	(455,395)	(802,258)
Research and development expenses	(7,828)	(9,246)	(23,644)	(11,901)	(27,314)
Selling, general and administrative expenses	(19,831)	(33,873)	(54,755)	(35,469)	(102,545)
Depreciation and amortization	(3,568)	(6,491)	(11,476)	(7,735)	(35,251)
Other operating expenses, net	(1,997)	(652)	(4,819)	(1,452)	(2,929)
Operating income	10,057	26,067	142,241	122,256	79,493
Interest income	—	197	872	529	5,056
Interest expense, net of amounts capitalized	(2,772)	(7,120)	(9,810)	(7,432)	(22,779)
Foreign currency transactions gain/(loss)	1,404	233	(2,914)	(2,247)	940
Income before income tax and minority interests	8,689	19,377	130,389	113,106	62,710
Income tax expense	(2,926)	(3,234)	(35,147)	(29,173)	(23,391)
Minority interests	(740)	(4,793)	(26,015)	(24,690)	(2,321)
Net income	5,023	11,350	69,227	59,243	36,998
Translation adjustment, net of minority interests of $53, $768, ($380), ($380) and $972, respectively, and income tax effect of nil	1,761	1,013	(3,788)	(1,145)	12,539
Comprehensive income	6,784	12,363	65,439	58,098	49,537
Weighted average number of common shares outstanding	1,886,771,000	1,886,771,000	1,886,771,000	1,886,771,000	5,912,372,903
Earnings per share, basic and diluted	0.003	0.006	0.037	0.031	0.006

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	(in thousands of U.S. dollars)				
Revenues by segment[1]					
Telecommunication Solutions	50,457	87,777	246,639	194,650	503,907
IT Solutions	—	293,523	468,404	312,912	349,023
Microelectronic Solutions	40,826	52,053	56,952	38,444	78,131
Consumer Electronics	3,363	30,909	124,038	42,625	88,172
Electronics Manufacturing Services	4,676	21,352	57,174	45,818	34,374
Corporate	91	270	65	281	62
Eliminations	(358)	(12,292)	(703)	(522)	(3,879)
Total	99,055	473,592	952,569	634,208	1,049,790
Operating income by segment					
Telecommunication Solutions	10,060	13,344	132,049	112,297	75,221
IT Solutions	—	(829)	6,469	5,947	4,878
Microelectronic Solutions	4,183	11,560	3,622	2,932	14,394
Consumer Electronics	(3,059)	2,372	1,921	1,351	(4,751)
Electronics Manufacturing Services	(408)	193	(1,678)	(813)	(6,997)
Corporate	(719)	(573)	(142)	542	(3,252)
Total	10,057	26,067	142,241	122,256	79,493
Consolidated balance sheet data (at period end)					
Total assets	124,581	301,043	566,090	481,850	1,588,133
Shareholders' equity	23,612	65,112	162,819	154,881	401,096
Long-term debt, net of current portion	23,943	7,954	6,125	5,016	209,609
Consolidated cash flows data					
Net cash (used in)/provided by operating activities	(7,081)	(2,995)	58,605	(22,813)	(100,729)
Net cash (used in)/provided by investing activities	(7,706)	12,086	(69,795)	(26,860)	(117,146)
of which capital expenditures[2]	(5,618)	(7,103)	(47,394)	(20,483)	(63,271)
Net cash provided by financing activities	17,258	25,233	56,716	43,316	313,504
Non-U.S. GAAP measures[3]					
Consolidated OIBDA	13,625	32,558	153,717	129,991	114,744
Telecommunication Solutions OIBDA	10,646	15,137	135,215	114,184	103,420
IT Solutions OIBDA	—	1,825	11,558	9,674	8,803
Microelectronic Solutions OIBDA	6,619	13,048	5,586	4,255	16,049
Consumer Electronics OIBDA	(3,025)	2,401	1,922	1,351	(4,637)
Electronics Manufacturing Services OIBDA	104	623	(642)	(152)	(5,768)

(1) Segment revenues include intersegment sales.

(2) Represents the aggregate of purchases of property, plant and equipment and of intangible assets.

(3) OIBDA represents operating income plus depreciation and amortization. We present OIBDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. We also present OIBDA by segment because our overall performance is best explained with reference to results of each segment.

OIBDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under U.S. GAAP. Some of these limitations are as follows:

- OIBDA does not reflect the impact of financing costs, which are significant and could further increase if we incur more debt, on our operating performance.
- OIBDA does not reflect the impact of income taxes on our operating performance.
- OIBDA does not reflect the impact of depreciation and amortization on our operating performance. The assets of our businesses which are being depreciated and/or amortized will have to be replaced in the future and such depreciation and amortization expense may approximate the cost to replace these assets in the future. By excluding such expense from OIBDA, OIBDA does not reflect our future cash requirements for such replacements.
- Other companies in our industry may calculate OIBDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our U.S. GAAP operating results and using OIBDA only supplementally. See our consolidated statements of operations and statements of cash flows included elsewhere in this prospectus.

OIBDA is a measure of our operating performance that is not required by, or presented in accordance with, U.S. GAAP. OIBDA is not a measurement of our operating performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, OIBDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

Reconciliation of OIBDA to operating income is as follows for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	(in thousands of U.S. dollars)				
Consolidated OIBDA reconciliation					
Operating income	10,057	26,067	142,241	122,256	79,493
Depreciation and amortization	3,568	6,491	11,476	7,735	35,251
Consolidated OIBDA	13,625	32,558	153,717	129,991	114,744
Telecommunication Solutions OIBDA reconciliation					
Operating income	10,060	13,344	132,049	112,297	75,221
Depreciation and amortization	586	1,793	3,166	1,887	28,199
Telecommunication Solutions OIBDA	10,646	15,137	135,215	114,184	103,420
IT Solutions OIBDA reconciliation					
Operating income	—	(829)	6,469	5,947	4,878
Depreciation and amortization	—	2,654	5,089	3,727	3,925
IT Solutions OIBDA	—	1,825	11,558	9,674	8,803
Microelectronic Solutions OIBDA reconciliation					
Operating income	4,183	11,560	3,622	2,932	14,394
Depreciation and amortization	2,436	1,488	1,964	1,323	1,655
Microelectronic Solutions OIBDA	6,619	13,048	5,586	4,255	16,049
Consumer Electronics OIBDA reconciliation					
Operating income	(3,059)	2,372	1,921	1,351	(4,751)
Depreciation and amortization	34	29	1	—	114
Consumer Electronics OIBDA	(3,025)	2,401	1,922	1,351	(4,637)
Electronics Manufacturing Services OIBDA reconciliation					
Operating income	(408)	193	(1,678)	(813)	(6,997)
Depreciation and amortization	512	430	1,036	661	1,229
Electronics Manufacturing Services OIBDA	104	623	(642)	(152)	(5,768)

Securities Offered

We are offering 1,549,839,200 newly issued shares of Sitronics in the form of GDRs, with one GDR representing 50 shares. The Selling Shareholders are offering 125,160,800 shares of Sitronics. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S. The shares are being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S.

Registration of Placement Report

Trading in the GDRs on the London Stock Exchange will be subject to cancellation until the placement report for the newly issued shares being offered by us is registered by the Russian Federal Service for the Financial Markets. We have undertaken that if the placement report is not registered within 60 days after the Closing Date (or such later date as we agree with the Underwriters), we will deliver to the Depositary the proceeds of the GDRs sold by us and the Underwriters have agreed to deliver to the Depositary the underwriting commissions related to the GDRs sold by us. The

Depositary will then distribute the funds thus received by it to the then holders of the GDRs pro rata (or on such other basis as it deems practicable), subject to the terms of the Deposit Agreements. The amount per GDR ultimately returned to such holders of GDRs will be less than the initial public offering price per GDR, and may be subject to withholding taxes and delays. See "Registration of Placement Report."

Until the registration of the placement report, all GDRs will be issued on a provisional basis, GDR holders will not be entitled to instruct the Depositary to exercise any voting rights as a shareholder, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. GDR holders may not withdraw the shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitations on withdrawal and voting of the underlying ordinary shares apply with equal force to all ordinary shares deposited with the Depositary against the provisional issuance of GDRs prior to the registration of the placement report, whether deposited by us or by the Selling Shareholders with the Depositary at closing against the issuance of GDRs in connection with the offering, or otherwise. The foregoing will not, however, prohibit trading in the GDRs.

See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders."

Use of Proceeds

The net proceeds that we will receive from the offering, after deducting underwriting commissions, fees and expenses incurred in connection with the offering, will be approximately $352.6 million (assuming the Underwriters do not exercise the Over-allotment Option). We intend to use approximately 50% of the proceeds from the Offering for acquisitions, including for the consolidation of minority interests in our subsidiaries, 25% of the proceeds for the repayment of indebtedness and the remaining 25% of the proceeds for general corporate purposes, including for the development of new projects and for working capital. We will not receive any of the proceeds from the sale of shares being offered by the Selling Shareholders.

RISK FACTORS

Investment in our shares and GDRs involves a high degree of risk. You should carefully consider the risks described below and the other information contained in this prospectus before making a decision to invest in our shares and GDRs. Any of the following risks could adversely affect our business, financial condition and results of operations, in which case the trading price of our shares and GDRs could decline and you could lose all or part of your investment.

Risks Relating to Business Operations in Emerging Markets

Emerging markets are subject to greater risks than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as Russia, other CIS countries and countries of Eastern Europe, the Middle East and Africa should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in our shares and GDRs.

Risks Relating to Our Business

We have experienced rapid growth, which must be successfully managed in order to viably expand our operations.

We have experienced substantial growth in a relatively short period of time, much of it through acquisitions. In particular, Kvazar-Micro was acquired in July 2004, which accounted for 33.1% of our revenues for the nine months ended September 30, 2006, and we acquired Intracom Telecom in June 2006, which accounted for 29.2% of our revenues for the nine months ended September 30, 2006. We commenced the operations of our Consumer Electronics division in 2001, which accounted for 8.4% of our revenues for the nine months ended September 30, 2006. The operating complexity of our business, as well as the responsibilities of management, have increased as a result of this growth, requiring more managerial and operational resources. Management of this growth will require, in addition:

- integration of new acquisitions into operations;
- continued development of financial and management controls and information technology systems and their implementation in newly acquired businesses;
- increased marketing activities;
- coordination of sales activities across various markets;
- hiring and training of new personnel; and
- adapting to changes in our markets, including increased competition.

If we fail to successfully manage our growth or personnel needs, our business, financial condition and results of operations could be materially adversely affected.

We may not be able to successfully integrate acquired businesses.

The integration of acquired businesses requires significant time and effort from senior management, who are also responsible for managing existing operations. The integration of acquired businesses may be difficult for a variety of reasons, including differing culture, management styles and systems and infrastructure and poor records or internal controls. We may face significant challenges in consolidating functions and integrating procedures, personnel, product lines, technologies and operations in a timely and efficient manner. Integrating acquired businesses may require attention of management and devotion of resources, including substantial initial cash investments. Furthermore, even if we are successful in integrating acquired businesses, expected synergies and cost savings may not materialize, resulting in lower than expected profit margins. We cannot assure you that we will be successful in integrating acquired businesses or that we will realize any of the anticipated benefits of integration.

In addition, we may acquire or establish businesses in countries that may represent new operating environments for us and which may be located a great distance from our headquarters in Russia. We may thus have less control over the activities of these companies and may face more uncertainties with respect to the operational and financial needs of these businesses, which may hinder our integration efforts. In particular, in June 2006 we acquired a 51% interest in Intracom Telecom, a provider of telecommunications solutions and headquartered in Greece. If we fail to integrate this or our other acquired businesses successfully, our rate of expansion may slow and our business, financial condition and results of operations could be materially adversely affected.

Our business strategy contemplates further geographical expansion, and our future growth depends on the execution of this strategy.

We are following an expansion strategy which contemplates that we will be able to identify suitable targets that will fit into our operations and that we will acquire them on acceptable terms. Many of our competitors have more experience and greater resources than we do, which may allow them to identify such opportunities more quickly or to pay more for them. Our failure to identify suitable opportunities for expansion and/or acquire new operations on acceptable terms or at all may limit our growth and could have a material adverse effect on our business, financial condition and results of operations.

In addition, future acquisitions are accompanied by the risk that the obligations and liabilities of an acquired company may not be adequately reflected in the historical financial statements of such company and the risk that such historical financial statements may be based on assumptions which are incorrect or inconsistent with our assumptions or approach to accounting policies.

Our success depends on our senior management team and other key personnel, as well as on highly skilled employees that may be difficult to hire and retain.

Our ability to maintain our competitive position and to implement our business strategy is dependent on the services of our senior management team and other key personnel. Competition in Russia, and in the other emerging markets where we operate, for personnel with relevant expertise is intense due to the small number of qualified individuals. As a result, we may not be able to retain and attract qualified personnel to fill key positions. Moreover, we are not insured against the detrimental effects to our business resulting from the loss or dismissal of our key personnel. The loss in the services of members of our senior management team and of other key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our success also depends in large part on our ability to attract, train, motivate and retain highly skilled information technology professionals, researchers, software programmers and telecommunications and electronics engineers. These types of qualified personnel are in great demand and this trend is likely to continue for the foreseeable future. Overall, we currently employ approximately 4,600 technical specialists involved in research and development, of which over 4,200 are located in Russia, Ukraine, the Czech Republic and Greece. We intensively recruit technical personnel for our development centers in these countries and our ability to expand our business is highly dependent upon our success in recruiting such personnel and our ability to manage and coordinate our development efforts in our major centers of operations. We may be unable to continue to attract and retain the skilled employees we require and any inability to do so could adversely impact our ability to manage and complete our existing projects and to compete for new customer contracts. In addition, the resources required to attract and retain such personnel may adversely affect our operating margins. The failure to attract and retain qualified personnel may have a material adverse effect on our business, financial condition and results of operations.

Our controlling shareholder has the ability to take actions that may conflict with the interests of other holders of our shares and GDRs.

We are controlled by Sistema, which, together with its group companies, owns 88.61% of our shares and will own 74.22% of our shares after the offering, assuming the Underwriters do not exercise the Over-allotment Option. Except in certain cases as provided by Russian Joint Stock Company Law, resolutions at a shareholders' meeting are adopted by a simple majority in a meeting at which shareholders holding more than half of the issued share capital are present or represented. Accordingly, Sistema will have the power to control the outcome of most matters to be decided by vote at a shareholders' meeting and will control the appointment of the majority of directors and the removal of all of the elected directors. Sistema will also be able to control or significantly influence the outcome of any vote on matters which require three-quarters majority vote of a shareholders' meeting, such as amendments to the charter, reorganizations, substantial sales of assets and other major corporate transactions. Actions by Sistema could result in a material adverse effect on our business, financial condition and results of operations and the value of the shares and GDRs.

We also conduct significant amounts of business with Sistema's subsidiaries. Transactions with related parties pose the risk of our entering into transactions on terms less favorable than could be obtained in arm's-length transactions with unrelated parties. Moreover, Sistema, as our controlling shareholder, could cause us to enter into transactions with our affiliates on terms less favorable than could be obtained in arm's-length transactions with unrelated parties. Any such transactions could materially adversely affect our business, financial condition and results of operations.

In addition, pursuant to a put option agreement entered into between Sistema and the European Bank for Reconstruction and Development ("EBRD") on September 12, 2006, EBRD, which purchased 3.67% of our shares pursuant to a subscription agreement dated September 12, 2006, has the right to sell all of its shares in us to Sistema until, under certain circumstances, up to two years after the date of the offering. If EBRD exercises its put option, Sistema's ownership of our shares will increase.

We depend on Sistema for a substantial portion of our sales and our overall development.

We are a subsidiary of Sistema and derive a substantial portion of our sales from Sistema and its other subsidiaries and affiliates. For the year ended December 31, 2005 and the nine months ended September 30, 2006, sales to Sistema and its subsidiaries and affiliates accounted for 32.5% and 23.5%, respectively, of our revenues. During the same periods, sales to Sistema and its subsidiaries and affiliates by our Telecommunication Solutions segment accounted for 92.4% and 35.8%, respectively, of this segment's revenues. In addition, our gross margins for sales to Sistema-related entities have historically been much higher than our gross margins overall, in part because products sold by our Telecommunication Solutions segment to Sistema-related companies, such as BSS/OSS software, are higher margin products. As a result, our reliance on Sistema in terms of profitability is significantly higher than the percentage of sales contribution.

We are considered the technology segment of Sistema, and the involvement of Sistema in our operations has been, and will continue to be, important for the implementation of our strategy and development. Our business could suffer if Sistema ceased to participate actively in our development or if the Sistema group suffered a deterioration in its overall financial condition. In addition, changes in the operations of Sistema and its subsidiaries and affiliates could cause sales of our products to decline. Mergers, acquisitions, divestments or consolidations involving any of these entities could potentially result in a decrease in sales and the loss of significant revenue. At the same time, as a part of the Sistema group, any negative publicity or rumors about Sistema, its subsidiaries or affiliates and their shareholders and managers could negatively impact our business and the value of the shares and GDRs.

Our quarterly operating results may fluctuate, which could have a material adverse effect on our business, financial condition and results of operations.

We have experienced, and anticipate that we will continue to experience, significant fluctuations in quarterly revenues and operating results. Our quarterly operating results may fluctuate as a result of many factors, including:

- the variable size and timing of purchases by customers and significant customer projects;
- seasonal factors that may affect capital spending by customers, such as the varying fiscal year ends of customers and the reduction in business during the summer months, particularly in Europe;
- the relatively long sales cycles for many of our products;
- changes in the mix of products sold;
- the timing of hiring sales and technical personnel;
- competitive conditions in our markets;

- cancellations of significant projects by customers;
- changes in our strategy;
- the timing of the introduction and market acceptance of new products or product enhancements by us and our customers, competitors or suppliers;
- costs associated with developing and introducing new products, including expenditures on R&D;
- product life cycles;
- changes in the level of operating expenses relative to revenues;
- customer order deferrals in anticipation of new products;
- delays in purchasing decisions or customer orders due to customer consolidation;
- supply interruptions;
- exchange rate fluctuations; and
- general economic and political factors.

Our license revenues in any quarter for certain products sold by our Telecommunication Solutions business depend substantially upon the number and size of contracts signed and our ability to recognize the associated revenue under our revenue recognition policy.

Our quarterly results may also be significantly affected by the size and timing of customer projects and our progress in completing such projects. In addition, the placement of customer orders may be concentrated in specific quarterly periods due to the time requirements and budgetary constraints of our customers. Although we recognize a significant portion of our revenue as projects progress, which progress may vary significantly from project to project, variations in quarterly revenue are sometimes attributable to the timing of initial order placements. Due to the relatively fixed nature of certain of our costs, a decline in revenue from even a limited number of transactions, failure to achieve expected revenue in any fiscal quarter or unanticipated variations in the timing of recognition of specific revenues can cause significant variations in operating results from quarter to quarter and may in some future quarter result in losses or have a material adverse effect on our business, financial condition and results of operations.

Certain of our products may be subject to a general pattern of price decline, which could have a material adverse effect on our business, financial condition and results of operations.

We expect that the average selling prices for certain of our products, particularly in the Microelectronic Solutions and Consumer Electronics divisions, will decrease substantially over time as a result of, among other factors, technological advances, standardization of products and cost reductions. Furthermore, competitors may invest in new manufacturing capacity and achieve significant manufacturing yield improvements and greater cost efficiencies in the future. These developments could increase dramatically the worldwide supply of competitive products and result in further downward pressure on prices. If we are unable to decrease per unit manufacturing costs at a rate equal to or faster than the rate at which selling prices continue to decline or if we are unable to introduce new products, our business, financial condition and results of operations could be materially adversely affected.

Volatility in the communications equipment industry or fundamental changes in the telecommunications or IT markets may affect sales and, as a result, we could experience declines in our operating results.

Our future success is dependent upon the continued growth of the telecommunications industry. The global telecommunications industry is evolving rapidly, and it is difficult to predict its potential growth rate or future trends. We cannot assure you that the deregulation, privatization and economic globalization of the worldwide telecommunications market that has resulted in increased competition and escalating demand for new technologies and services will continue in a manner favorable to us or our business strategies. In addition, future developments in the telecommunications industry, such as continued industry consolidation, formation of alliances among network operators and service providers and changes in the regulatory environment, could adversely affect our existing or potential customers. This could reduce the demand for our products and services. As a result, we may be unable to effectively market and sell our products and services to potential customers in the telecommunications industry.

In addition, the communications equipment industry historically has been volatile and is characterized by fluctuations in product supply and demand. From time to time, this industry has experienced significant downturns. This volatility could cause our operating results to decline dramatically from one period to the next.

Our IT Solutions business is dependent, in part, upon continued growth in the use of technology in business by our clients and prospective clients and their customers and suppliers. In periods of economic slowdown, companies that have already invested substantial resources in their technology systems and processes may be particularly reluctant or slow to adopt a new approach that may make some of their existing personnel and infrastructure obsolete.

Our products may become obsolete if new or modified products are not developed.

The industries in which we operate are characterized by rapid technological change, frequent product introductions and improvements, evolving industry standards and changes in customer and end-user requirements. Delays in completing the development and introduction of products that address new applications and markets could cause sales to decline and result in operating losses. If we are unable to anticipate or respond adequately to customer demands due to resource, technological, or other constraints, our business, financial condition and results of operations could be materially adversely affected.

Successful product design, development and introduction on a timely basis require that we design products with innovative and performance-enhancing features that differentiate our products from those of their competitors; identify emerging technological trends in target markets; maintain effective sales and marketing strategies; respond effectively to technological changes or product announcements by others; and adjust to changing market conditions quickly and cost-effectively. These factors, coupled with rapid technological change and intense competition, may result in a substantial increase in our capital and operational expenditures.

We also require technical expertise to implement the changes necessary to keep our technologies current, but must rely heavily on the judgment of management to anticipate future market trends. If management is unable to predict industry changes in a timely manner, or if they are unable to modify products on a timely basis to address new applications or enter into new markets, we might lose customers or market share.

Additionally, the development of new products generally requires a substantial investment before we can determine whether such products will be commercially viable. If we fail to adequately predict our customers' needs and technological advances, we may invest heavily in research and development of products that do not lead to significant revenues, or may fail to invest in technology necessary to meet customers' demands, and we may be unable to recover any expenditures we make relating to one or more new products or technologies that ultimately prove to be unsuccessful. Development of new products may also require us to make significant investments beyond what is currently planned.

We operate in highly competitive industries.

We compete directly or indirectly with a large number of competitors, including some of the world's most recognized companies, and we expect this competition to increase. Many of these companies have longer operating histories, greater market recognition, larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess, which afford them competitive advantages over us.

Existing and potential competitors have established, and may establish in the future, cooperative relationships among themselves or with third parties to enhance their ability to address the needs of our prospective customers. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share. As a result, our competitors may be able to adapt more quickly than us to new or emerging technologies and changes in customer requirements, and may be able to devote greater resources to the promotion and sale of their products.

Our ability to compete successfully depends on a number of factors, both within and outside of our control. These factors include the following:

- our success in designing and developing new or enhanced products;
- our ability to address the needs of retailers and consumers;

- the pricing, quality, performance, reliability, features, ease of use and diversity of our products;
- the quality of our customer service; and
- product or technology introductions by our competitors.

In addition, the markets for telecommunications services in any particular country or region are dominated by a few operators and a number of global players are competing for acquisitions, and we may face difficulties in maintaining and developing customer relationships with operator customers due to our existing or future customer relationships with the competitors of such operators.

Our inability to compete successfully or manage and develop customer relationships could result in reduced revenues and operating margins and an inability to increase our market share, as well as different pricing, service or marketing policies for our products and service offerings. This, in turn, may materially adversely affect our business, financial condition and results of operations.

Several of our businesses operate at very low profitability levels.

For the year ended December 31, 2005 and the nine months ended September 30, 2006, operating income margins were 1.4% and 1.4%, respectively, for our IT Solutions division, 1.5% and (5.4)%, respectively, for our Consumer Electronics division, and (3.0)% and (21.9)%, respectively, for our Electronics Manufacturing Services division. If we experience negative operating trends in these divisions, our profitability could be materially adversely affected.

We depend on relationships with certain suppliers and vendors.

We source raw materials and components for our products from various domestic and foreign suppliers and we are dependent on developing and maintaining close and productive relationships with our suppliers. Many factors outside our control may harm these relationships. For example, financial or operational difficulties with a supplier could cause that supplier to increase the cost of the products we purchase from it. Supplier consolidation could also limit the number of suppliers from which we may purchase products and could materially affect the prices paid by us for these products. Prices may also be affected by an increase in costs of raw materials or components to our suppliers, and we may not be able to pass on these costs to our customers.

In addition, as a distributor of IT components, our IT Solutions division is dependent on certain relationships with our vendors. In particular, during the year ended December 31, 2005 and the nine months ended September 30, 2006, revenues of our information technologies segment from the distribution of products purchased under a distribution agreement with Intel International B.V. (“Intel”) amounted to $228.0 million and $153.1 million, respectively, or 23.9% and 14.6% of our revenues for the respective periods. Our IT Solutions division would be seriously harmed if Intel ceased to use us as a distributor or reduced its volume of business with us.

A loss, disruption or diminution of our relationships with certain suppliers and vendors could have a material adverse effect on our business, financial condition and results of operations.

Shortages of components and materials may delay or reduce our sales and increase our costs.

Our inability to obtain sufficient quantities of components and other materials necessary to make our products could result in delayed sales or lost orders. We may be faced with increased costs, supply interruptions, and difficulties in obtaining certain components. Materials and components for some of our major products may not be available in sufficient quantities to satisfy our needs because of shortages of these materials and components. Any supply interruption or shortages could harm our reputation with our customers and may result in lost sales opportunities.

Our business could be materially adversely affected if we fail to obtain or renew necessary licenses and permits or fail to comply with the terms of our licenses and permits.

We depend on the continuing validity of certain licenses and permits and the issuance of certain new licenses and permits and our compliance with the terms thereof, including various production licenses and environmental permits. Regulatory authorities exercise considerable discretion in the timing of license and permit issuance, renewal and monitoring licensees’ compliance with license terms. Requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of production operations. Further, private individuals and the public at large possess rights to comment on and otherwise engage in the licensing and permitting process, including through intervention in courts and political pressure. Accordingly, these factors may seriously affect our ability to obtain or renew necessary licenses and permits, and if we are unable to obtain or renew necessary licenses and permits or are only able to obtain them with newly-introduced material restrictions, our business and results of operations could be materially adversely affected.

Our substantial investments in research and development may not lead to timely improvements in technology and we may not have sufficient resources to invest in the level of research and development that is required to remain competitive.

We make substantial investments in research and development for design and process technologies. In the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006, we spent approximately $7.8 million, $9.2 million, $23.6 million and $27.3 million, respectively, on research and development activities. Implementing a significant new process technology requires substantial long-term investment and often many years of development effort. In addition, each successive improvement in processor technology generally involves an increase in complexity that may increase the required level of investment and demand more development effort. For example, our Microelectronic Solutions division plans to invest up to $160 million to accomplish the transition from 2.0-0.8 micron technology to 0.18 micron technology. We may also devote research and development resources to technologies or products that turn out to be unsuccessful. We cannot assure you that our investments will lead to timely improvements in technology and that we will have sufficient resources to maintain the level of investment in research and development that is required for us to remain competitive.

Production overcapacity and oversupply in the industries in which we operate could cause us to under-utilize our manufacturing facilities and could result in downward pressure on prices.

It is difficult to predict future growth or decline in the markets served by our microelectronic components and consumer electronics segments, making it very difficult to estimate requirements for production capacity. If our target markets do not grow as anticipated, we may under-utilize our microelectronic components and consumer electronics manufacturing facilities. This may result in write-downs or write-offs of inventories and losses on products whose demand is lower than anticipated. During periods of industry overcapacity, customers do not generally order products as far in advance of the scheduled shipment date as they do during periods when these industries are operating closer to capacity, which can exacerbate the difficulty in forecasting capacity requirements. In addition, the industries in which we operate are subject to cyclical fluctuations, including recurring periods of capacity increases, which may adversely affect our operating results. During such periods of capacity increases, our customers can exert and have exerted downward pricing pressure, resulting in declines in average selling prices and fluctuations in our gross margins.

For example, the semiconductor industry has historically been cyclical and is characterized by wide fluctuations in product supply and demand. Because the majority of semiconductor products produced are of a commodity nature, semiconductor prices are driven primarily by changes in worldwide semiconductor supply, which in turn is driven by manufacturing capacity and, in part, by fluctuations in demand for the end products that use semiconductors. From time to time, the industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product and technology cycles, excess inventories and declines in general economic conditions. This cyclicality in the industry, including any instances of oversupply in the future could lead to unsold inventory or unused manufacturing capacity at our microelectronic components manufacturing facilities and could have a material adverse effect on our business, financial condition and results of operations.

If our manufacturing processes are delayed or disrupted, our business, financial condition and results of operations could be materially adversely affected.

Our Telecommunication Solutions and Microelectronic Solutions divisions manufacture products using processes that are highly complex and require advanced and costly equipment that must continuously be maintained and modified to improve yields and performance when implementing new technologies. We may face interruptions due to human error in the operation of the machines, power outages, earthquakes and other natural disasters or other incidences that have an impact on the productive availability of machines, material or manpower. Difficulties encountered in the manufacturing process can reduce production yields or interrupt production and may make it difficult for us to deliver products on time or in a cost-effective, competitive manner, which could have a material adverse effect on our business, financial condition and results of operations.

Our information technologies subsidiary, Kvazar-Micro, uses third parties to import various components into the CIS and any challenge to this practice may have a material adverse effect on our business, financial condition and results of operations.

Kvazar-Micro utilizes third parties to import PC components and peripherals for its systems integration and distribution businesses from Intel and other foreign vendors. Any challenge to these arrangements by the Ukrainian customs or other regulatory authorities could result in fines and increase the costs incurred by Kvazar-Micro which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

Our lengthy sales cycle makes it difficult to anticipate the timing of sales.

The sales cycle for many of our products, including telecommunications equipment and networking solutions, is lengthy, with the time between the making of an initial proposal to a prospective customer and the signing of a sales contract typically being between six and twelve months. Telecommunications equipment and information systems for telecommunications service providers are relatively complex and their purchase generally involves a significant commitment of capital, with attendant delays associated with large capital expenditures and implementation procedures within an organization. Moreover, the purchase of such products typically requires coordination and agreement across a potential customer's entire organization. Delays associated with such timing factors limit the predictability of our business and may reduce our revenues in a particular period without a corresponding reduction in our costs, which could have a material adverse effect on our business, financial condition and results of operations.

Our accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting and our independent auditor has noted certain matters relating to significant deficiencies in the design and operation of our internal controls.

Our system of internal controls and financial reporting requires certain improvements to provide accurate and timely information for the preparation of U.S. GAAP financial statements. We do not have a fully integrated information system. Each of our subsidiaries prepares separate financial statements under local accounting standards for statutory purposes. The preparation of U.S. GAAP financial statements involves, first, the transformation of the statutory financial statements of our subsidiaries into U.S. GAAP financial statements through accounting adjustments and, second, the consolidation of these financial statements. This process is complicated and time-consuming, and requires significant attention from our senior accounting personnel. We have not yet completed the project of implementing unified accounting systems and internal controls for all our group companies. Thus we do not have accounting systems and internal controls that are commonplace in Western companies and the preparation of financial statements requires significantly more time for us than it does for Western companies.

Our independent auditors have identified certain matters relating to significant deficiencies in the design or operation of our internal controls that could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Our independent auditors considered these deficiencies in determining the nature, timing and extent of the procedures they performed in their audit of our financial statements as of and for the year ended December 31, 2005, and they did not affect the report of independent auditors on those financial statements.

We have taken, and plan to take, steps to further improve our accounting systems and internal controls. Notwithstanding the steps we are taking to address these issues, we may not be successful in remedying these deficiencies or preventing future deficiencies. If we are unable to remedy the deficiencies, we may not be able to prevent or detect a material misstatement of our annual or interim U.S. GAAP consolidated financial statements or to ensure that they are prepared in a timely manner.

Our Microelectronic Solutions business is highly capital intensive and subject to a high degree of uncertainty.

Our Microelectronic Solutions business is highly capital intensive due to the constant need to invest in new technology in order to remain competitive. We cannot assure you that we will be able to obtain the necessary capital to make such investments in the future, which may result in our inability to remain competitive in the marketplace. In addition, due to rapid changes in technology, our products may become outdated and, therefore, yield a lower return on investment as a result of downward price pressure.

In addition, many of our projects, such as smart cards or the electronic passport program, are in the early stages of development. We cannot assure you that we will achieve the level of technological competence required to produce such products or that the demand for these products will be as anticipated. Furthermore, if any of our products that contain confidential information of our customers are compromised, we may be liable for such security breach.

A significant amount of our operating revenues are derived from Russian government departments and agencies and other organizations funded by the federal budget of the Russian Federation.

Some of our divisions, including Microelectronic Solutions and IT Solutions, supply or expect to supply their products to Russian governmental agencies and organizations which are, directly or indirectly, funded by the federal budget of the Russian Federation. In the event that the Russian government reduces the expected budget disbursements or chooses to use other suppliers or no longer has the need for these products and services, there could be a significant reduction in our revenues, which may, in turn, have a material adverse effect on our profitability.

We may not be successful in establishing a brand identity for our consumer electronics products.

We have used the "Sitronics" consumer electronics brand name only since November 2002 and we will need to continue to expend significant time, effort and resources to establish the "Sitronics" brand name in the marketplace. There can be no assurance that this effort will ultimately be successful. If we are unsuccessful in further strengthening our brand identity, our business, financial condition and results of operations may be materially adversely affected.

Our Consumer Electronics division is in the process of implementing a new strategy which has not been commercially tested and there can be no assurance that this strategy will be successful.

Historically, our Consumer Electronics division offered products designed by third parties and produced by EMSs. However, the division is currently implementing a new strategy to design more of its own products. As a result of this new strategy, the division will cease production of certain types of products such as Sitronics-branded CRT television sets and will discontinue the resale of non-Sitronics branded products. As a result, our Consumer Electronics division may experience a steep decline in revenues in the short term. Furthermore, we cannot assure you that this strategy will be successful and will result in increased revenues or profits for the division.

Our Consumer Electronics division relies on contract manufacturers, and its failure to maintain satisfactory delivery schedules could increase its costs, disrupt its supply chain, and result in its inability to deliver its products, all of which could materially adversely affect our business, financial condition and results of operations.

Many of our "Sitronics" brand consumer electronics products are manufactured and assembled by outsourcing partners primarily located in China. We do not have long-term (more than one year) arrangements with any of our contract manufacturers that guarantee production capacity or prices. Certain of our contract manufacturers serve other customers, a number of which have greater production requirements than us. As a result, our contract manufacturers could determine to prioritize production capacity for other customers or reduce or eliminate services for us on short notice. Qualifying new manufacturers is time-consuming and could result in unforeseen manufacturing and operational problems. The loss of our relationships with our contract manufacturers or their inability to conduct their manufacturing services for us as anticipated in terms of cost, quality, and timeliness could adversely affect our ability to fill customer orders in accordance with required delivery, quality, and performance requirements. Additionally, rapid increases in orders from any of our larger customers could cause our requirements to exceed the capacity of our contract manufacturers. If any of these events were to occur, the resulting decline in revenues could materially adversely affect our business, financial condition and results of operations.

Sistema's financings contain restrictive covenants, which could limit our ability to conduct our operations.

We are a subsidiary of Sistema, and Sistema consolidates our results in its financial statements. Sistema's financings contain various financial and other covenants, which, among other things, require Sistema not to, and not permit its subsidiaries to, incur debt, create liens and dispose of assets, unless certain conditions are met. For example, Sistema has undertaken that it will not, and will not permit its subsidiaries to, incur debt unless its consolidated debt/EBITDA ratio, as defined in such financings, is met. In addition to us, Sistema has various other subsidiaries conducting other businesses that require capital and regularly incur debt according to their needs. Sistema may also enter into other agreements in the future that may further restrict it and its restricted subsidiaries, including us, from engaging in these and other activities. Higher levels of group-wide debt or lower levels of group-wide EBITDA, over which we do not have control, could reduce Sistema's consolidated debt incurrence capacity and we may not be able to incur debt to meet our capital needs. We expect Sistema to exercise its control over us in order for Sistema, as a consolidated group, to meet its obligations under its current and future financings and other agreements, which could materially limit our ability to conduct our operations, including raising debt financing.

Our inability to adequately protect our intellectual property rights may have a material adverse effect on our results of operations and ability to develop our business.

Our success and ability to compete greatly depends on our proprietary technology, and any misappropriation of our technology or the development of competitive technology could seriously harm our business. We also depend on our trademarks to market our products and services. We rely on a combination of patents and trade secrets, copyright and trademark laws, together with non-disclosure agreements, confidentiality clauses in agreements and technical measures to establish and protect proprietary rights in our products. As of the date of this prospectus, we had 56 registered patents and 2 pending applications in Russia, Ukraine and Greece and we had 74 registered trademarks.

Despite measures taken to protect our intellectual property, we cannot guarantee that we will be able to successfully protect our technology because: (1) some countries may not protect proprietary rights as fully as do the laws of countries in Western Europe and the United States and agencies in such countries may permit challenges to intellectual property rights based on a formal or technical reading of applicable statutes; (2) if a competitor were to infringe our proprietary rights, enforcing such rights may be time consuming and costly, diverting both management's attention and resources; (3) measures like entering into non-disclosure agreements afford only limited protection; (4) unauthorized parties may attempt to copy aspects of our products and develop similar products or to obtain and use information that we regard as proprietary; and (5) our competitors may be able to independently develop products that are substantially equivalent or superior to our products or design around our intellectual property rights. Our inability to adequately protect our intellectual property rights may have a material adverse effect on our results of operations and ability to develop our business. Further, if we are required to resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive and involve a high degree of risk.

We may not be able to prevent others from successfully claiming that we have infringed their proprietary rights.

Significant and protracted litigation may be necessary to protect intellectual property rights. The industries in which we operate are characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement and the violation of other intellectual property rights. As the number of competitors in the market grows and the functionality of our products increases, the possibility of an intellectual property claim against us increases. In addition, because patent applications can take many years to be published, there may be a patent application now pending, of which we are unaware, which could cause us to be infringing when issued in the future.

In addition, we manufacture certain microelectronics products that were developed more than a decade ago, at which time Russian intellectual property legislation lacked consistency and was unclear as to the protection of intellectual property rights of foreign right holders. As certain of these products may infringe upon the rights of foreign intellectual property holders under current Russian and foreign law, it may be difficult for us to defend our intellectual property rights under the current legal framework from challenges in court or use by third parties.

To address any patent infringement or other intellectual property claims, we may have to redesign our products to avoid infringement or enter into royalty or licensing agreements on disadvantageous commercial terms. We may be unable to successfully redesign our products or obtain a necessary license, which may have a material adverse effect on our business, financial condition and results of operations.

We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and an inability to rebuild in a timely manner or at all.

The insurance industry is not yet well developed in Russia and Ukraine, and many forms of insurance protection common in more economically developed countries are not yet available in Russia and Ukraine on comparable terms, including coverage for business interruption. We maintain insurance against some, but not all, potential risks and losses affecting our operations, and we cannot assure you that our insurance will be adequate to cover all of our losses or liabilities. We also cannot assure you that insurance will continue to be available to us on commercially reasonable terms.

At present, we have no coverage for business interruption or loss of key management personnel. In the event that a significant event were to affect one of our facilities, we could experience substantial property loss and significant disruptions in our production for which we would not be compensated. Additionally, depending on the severity of the property damage, we may not be able to rebuild damaged property in a timely manner or at all. We do not maintain separate funds or otherwise set aside reserves for these types of events. Any such loss or third-party claim for damages may have a material adverse effect on our business, results of operations and financial condition.

Undetected product defects may increase our costs and impair the market acceptance of our products and technology.

Our products may contain defects that were undetected when initially shipped. Certain of the products produced by us are integrated into systems and products that customers develop themselves or acquire from other vendors. As a result, when problems occur in equipment or in a system that incorporates our products or technology, it may be difficult to identify the exact cause of these problems. It is not possible to determine whether, in the future, we will incur warranty costs or be subject to liability claims or litigation for damages related to product errors. If litigation were to arise, regardless of its outcome, it could result in substantial expenses to us, significantly divert the efforts of our technical and management personnel and disrupt or otherwise severely impact our relationships with current and potential customers. We do not maintain product liability insurance. In addition, if any products fail to meet specifications or have reliability, quality or compatibility problems, our reputation could be damaged significantly and customers might be reluctant to buy our products, which could result in a decline in sales, an increase in product returns or warranty costs, a loss of existing customers and/or the failure to attract new customers.

In particular, the design and production processes for many products produced by our Telecommunication Solutions and Microelectronic Solutions divisions are highly complex. It is possible that we may produce products that do not meet customer specifications, contain or are perceived to contain defects or errors, or are otherwise incompatible with their intended uses. We may incur substantial costs in remedying such defects or errors, which could include material inventory write-downs. In addition, many of these products are used by our customers to perform mission-critical functions, and problems within or out of our control may arise from the use of our products and result in financial or other damages to our customers.

We benefit from tariffs and duties on semiconductors and other technology imported into Russia, and these protections may be eliminated in the future.

Russia has in place import tariffs and duties on semiconductors, computers and other technology products imported from other countries into Russia. These measures generally increase prices for technology products sold in Russia, including semiconductors, and limit the competition we face in the sale of certain of our products in Russia.

Russia is currently conducting negotiations to join the World Trade Organization ("WTO"), and according to published press reports, may complete this process during 2007. Russia's accession to the WTO could result in Russia being required to lower or completely eliminate tariffs and duties on most technology products, which would result in increased competition in Russian technology markets from foreign producers. Reduction or elimination of these tariffs and duties could materially adversely affect our business, financial condition and results of operations.

Some of our business activities require compliance with U.S. export regulations and, if we violate these regulations, we may incur costs and suffer harm to our reputation.

U.S. regulations impose certain restrictions on the business activities of U.S. companies, subsidiaries of U.S. companies and U.S. citizens in relation to transactions with some countries, such as Iran and Syria, and certain designated individuals and organizations. We conduct substantial business in the Middle East, including Iran and Syria, and intend to further develop our business, including into North Africa. Within our group we have U.S. citizens serving in various capacities, including as officers and directors, and these restrictions apply to these individuals. If we do not carefully monitor our compliance with these regulations, these individuals may be subject to civil penalties or other sanctions, we may incur costs related to such sanctions and suffer harm to our reputation.

We are exposed to political, economic and other risks that arise from operating a multinational business, and further expansion into international markets is risky and time consuming.

Our acquisitions have increased the size and scope of our international operations. For the nine months ended September 30, 2006 and for the year ended December 31, 2005, approximately 62.5% and 48.0%, respectively, of our total revenues were derived from sources outside of Russia. We currently have operations in 25 countries with sales in more than 60 countries. Accordingly, our business is subject to the political, economic and other risks that are inherent in operating in numerous countries. In addition, the expansion of our existing international operations and entry into new markets will require significant management attention and financial resources. Multinational operations are subject to inherent risks, including, but not limited to:

- difficulty in enforcing agreements through foreign legal systems;
- increased cost in designing products that are compatible with varying local needs;
- longer accounts receivable collection periods and greater difficulty in accounts receivable collection;
- difficulty in staffing and managing foreign operations;
- longer sales cycles;
- actions taken by foreign governments pursuant to any applicable anti-dumping or other trade restrictions;
- difficulty in complying with local laws and regulations;
- variations in effective income tax rates among countries where we conduct business; and
- political and economic instability, particularly in emerging markets where we conduct business including the former CIS countries, Eastern Europe, the Middle East and Northern Africa.

Our business success depends in part on our ability to anticipate and effectively manage these and other regulatory, economic, social and political risks inherent in international business. We cannot assure you that we will be able to effectively manage these risks or that they will not have a material adverse effect on our international business or on our business as a whole.

Russian companies can be forced into liquidation on the basis of formal non-compliance with certain requirements of Russian law.

Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation, reorganization or during its operation. There have been cases in the past in which formal deficiencies in the establishment process of a Russian legal entity or non-compliance with provisions of Russian law have been used by Russian courts as a basis for liquidation of a legal entity. Weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If involuntary liquidation were to occur, such liquidation could lead to significant negative consequences for our group.

For example, in Russian corporate law, negative net assets calculated on the basis of Russian accounting standards as at the end of the second or any subsequent year of a company's operation can serve as a basis for a court to order the liquidation of the company upon a claim by governmental authorities. Many Russian companies have negative net assets due to very low historical asset values reflected on their Russian accounting standards balance sheets; however, their solvency, *i.e.*, their ability to pay debts as they come due, is not otherwise adversely affected by such negative net assets. The amount of net assets of some of our subsidiaries is below the minimum legal requirements, and we are currently taking steps to remedy this. As these subsidiaries continue to meet all of their obligations to creditors, we believe that the risk of their liquidation is minimal.

In the event that deficiencies or ambiguities in privatization legislation are successfully exploited to challenge our ownership in our privatized subsidiaries and we are unable to defeat these challenges, we risk losing our ownership interests in these subsidiaries or their assets, which could materially adversely affect our business, financial condition and results of operations.

Our business includes a number of privatized companies, such as Mikron, Elaks, Elion, NIITM and Kvant, and our business strategy may involve the acquisition of additional privatized companies. To the extent that privatization legislation is vague, inconsistent or in conflict with other legislation, including conflicts between federal and local privatization legislation, many privatizations are arguably deficient and, therefore, vulnerable to challenge, including selective challenges. In the event that any of our privatized companies are subject to challenge as having been improperly privatized and we are unable to defeat this claim, we risks losing our ownership interest in the company or our assets, which could materially adversely affect our business, financial condition, results of operations and prospectus.

In addition, under Russian law, transactions in shares may be invalidated on many grounds, including a sale of shares by a person without the right to dispose of such shares, breach of interested party and/or major transactions rules and failure to register the share transfer in the securities register. As a result, defects in earlier transactions in shares of our subsidiaries (where such shares were acquired from third parties) may cause our title to such shares to be subject to challenge.

We have engaged and will likely continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm's-length transactions.

We have engaged in transactions with related parties and may continue to do so. For example, we have engaged in transactions with certain of our shareholders, directors and executive officers and companies controlled by them, including equity purchases and sales, supply contracts, loan arrangements and real property acquisitions. Conflicts of interest may arise between our affiliates and us, potentially resulting in the conclusion of transactions on terms not determined by market forces.

In particular, we engage in various transactions with subsidiaries of Sistema, our controlling shareholder. For the year ended December 31, 2005 and the nine months ended September 30, 2006, sales to Sistema subsidiaries and affiliates accounted for 32.5% and 23.5%, respectively, of our revenues.

If transactions of members of our group and their predecessors-in-interest were to be challenged on the basis of non-compliance with applicable legal requirements, the remedies in the event of any successful challenge could include the invalidation of such transactions or the imposition of other liabilities on such member of the group.

Certain of our subsidiaries, or their predecessors-in-interest at different times, took a variety of actions relating to share issuances, share disposals and acquisitions, valuation of property, interested party transactions, major transactions, meetings of their governing bodies, other corporate matters and anti-monopoly issues that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant group members or their predecessors-in-interest, could result in the invalidation of such transactions or the imposition of other liabilities. Because applicable provisions of Russian law are subject to many different interpretations, we may not be able to successfully defend any challenge brought against such transactions, and the invalidation of any such transactions or imposition of any such liability could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

In the event that the minority shareholders of our subsidiaries were to successfully challenge past or future interested party transactions or other transactions or do not approve interested party transactions or other transactions in the future, we could be limited in our operational flexibility and our results of operations could be materially adversely affected.

We own less than 100% of the shares in many of our subsidiaries, with the remaining shares being held by minority shareholders. These subsidiaries have in the past carried out, and continue to carry out, numerous transactions with other subsidiaries and affiliates which may be considered "interested party transactions" under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders.

In addition, Russian law requires a three-quarters majority vote of the holders of voting stock present at a shareholders' meeting to approve certain transactions and other matters, including, for example, charter amendments, major transactions involving assets in excess of 50% of the assets of the company, repurchase by the company of shares and certain share issuances. In some cases, minority shareholders may not approve interested party transactions requiring their approval or other matters requiring approval of minority shareholder or supermajority approval. In the event that these minority shareholders were to successfully challenge past interested party transactions, or do not approve interested party transactions or other matters in the future, we could be limited in our operational flexibility and our business, financial condition and results of operations could be materially adversely affected.

More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations in the jurisdictions where we operate may have a significant negative effect on our operating results.

Our operations and properties are subject to environmental, health and safety and other laws and regulations in the jurisdictions in which we operate. For instance, our operations generate pollutants and waste, some of which are hazardous, such as acids, solvents and flammable materials which are used during the production process. The discharge, storage and disposal of such hazardous waste is subject to environmental regulations, including some requiring the clean-up of contamination and reclamation. In addition, pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable. In addition, we are generally not indemnified against environmental liabilities or any required land reclamation expenses of our acquired businesses that arise from activities that occurred prior to our acquisition.

Generally, there is a greater awareness in Russia of damage caused to the environment by industry than existed during the Soviet era. Environmental legislation in the jurisdictions where we operate, however, is generally weaker, and less stringently enforced, than in the United States. More stringent standards may be introduced or enforcement increased in Russia and elsewhere where we conduct our operations. Any change in this regulatory environment could result in actual costs and liabilities for which we have not provided.

Also, in the course, or as a result, of an environmental investigation, regulatory authorities can issue an order halting part or all of the production at a production facility which has violated environmental standards. In the event that production at one of our facilities was partially or wholly prevented due to this type of sanction, our business could suffer significantly and our operating results would be negatively affected.

Failure to comply with existing laws and regulations or the findings of government inspections, or increased governmental regulation of our operations, could result in substantial additional compliance costs or various sanctions which could materially adversely affect our business, financial condition and results of operations.

Our operations and properties are subject to regulation by various government entities and agencies, in connection with obtaining and renewing various licenses and permits, as well as with ongoing compliance with existing laws, regulations and standards. There is no comprehensive legal framework with respect to several of the industries in which we operate in Russia and in other areas in which we currently operate or may operate in the future. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses and permits and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and frequently do, conduct periodic inspections of our operations and properties throughout the year. Any such future inspections may conclude that we or any of our subsidiaries has violated laws, decrees or regulations, and we may be unable to refute such conclusions or remedy the violations.

Our failure to comply with existing laws and regulations or the findings of government inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of our licenses and permits, or in requirements that we cease certain business activities, or in criminal and administrative penalties applicable to our officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of our operations, could increase our costs and materially adversely affect our business, financial condition and results of operations.

Our business will be negatively affected if we are not able to anticipate and keep pace with rapid changes in technology or if growth in the use of technology in business is not as rapid as in the past.

Our success will depend, in part, on our ability to develop and implement management and technology services and solutions that anticipate and keep pace with rapid and continuing changes in technology, industry standards and client preferences. We may not be successful in anticipating or responding to these developments on a timely basis, and our offerings may not be successful in the marketplace. Also, services, solutions and technologies developed by our competitors may make our service or solution offerings uncompetitive or obsolete. Any one of these circumstances could have a material adverse effect on our ability to obtain and successfully complete important client engagements.

Our profitability will suffer if we are not able to maintain our pricing and control our costs.

Our profit margin, and therefore our profitability, is largely a function of the rates we are able to recover for our services. Accordingly, if we are not able to maintain the pricing for our services without corresponding cost reductions, we will not be able to sustain our profit margin and our profitability will suffer. For example, we are currently experiencing pressure on the pricing for our systems integration services. The rates we are able to recover for our services are affected by a number of factors, including:

- our clients' perception of our ability to add value through our services;
- competition;
- introduction of new services or products by us or our competitors;
- pricing policies of our competitors; and
- general economic conditions.

Risks Relating to our Financial Condition

If we are unable to obtain adequate capital, we may have to limit our operations substantially, which could have a material adverse effect on our business, financial condition and results of operations.

We will need to make significant capital expenditures in our business. We spent $47.4 million during 2005 and $63.3 million for the nine months ended September 30, 2006 and expect to spend almost $200 million in the fourth quarter of 2006 and through 2007 for the fulfillment of our capital spending plans, excluding acquisitions. Our ability to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. To meet our requirements, we may need to attract equity or debt financing, especially in international capital markets or from international lenders. It is possible that these foreign sources of financing may not be available or may be available only at an unacceptable cost.

Among other things, increased levels of indebtedness, and particularly increases in the level of secured indebtedness, could potentially: (1) limit our ability to obtain additional financing; (2) limit our flexibility in planning for, or reacting to, changes in the markets in which we compete; (3) place us at a competitive disadvantage relative to our competitors with superior financial resources; (4) lead to a partial or complete loss of control over our key subsidiaries or properties; (5) render us more vulnerable to general adverse economic and industry conditions, (6) require us to dedicate all or a substantial part of our cash flow to service our debt; and (7) limit or eliminate our ability to pay dividends. For example, our 7.875% Notes due 2009 contain covenants limiting our ability to incur debt, create liens, enter into sale and lease back transactions and merge, consolidate or dispose of assets. See “Description of Certain Indebtedness.” Failure to comply with these covenants could cause a default and result in the debt becoming immediately due and payable, which would materially adversely affect our business, financial condition and results of operations.

Our ability to make payments on our indebtedness depends upon our ability to maintain our operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and other factors, many of which we cannot control. If our cash flow from operating activities becomes insufficient, we may take certain actions, including delaying or reducing capital or other expenditures in an attempt to restructure or refinance our indebtedness, selling our investment properties or other assets or seeking additional equity capital. We may be unable to take any of these actions on acceptable terms or in a timely manner. Furthermore, such actions may not be sufficient to allow us to service our debt obligations in full and, in any event, may have a material adverse effect on our business. Our inability to service our debt through internally generated cash flow or such other sources of liquidity may put us in default of our obligations to our creditors, which could result in the loss of up to your entire investment in our GDRs and shares.

In addition, Russian companies are limited in their ability to issue shares in the form of GDRs or other depositary receipts due to Russian securities regulations, which generally provide that no more than 35% of a Russian company’s shares may be circulated abroad through depositary receipt programs. We have received permission from the Federal Service for the Financial Markets for up to 25% of our shares to be circulated abroad through depositary receipt programs. We expect that our GDR program will account for approximately 16.23% of our shares as a result of the offering, assuming the Underwriters do not exercise the Over-allotment Option. As a result, we are likely to be limited in our ability to raise additional equity financing through GDRs. The Russian government or its agencies may also impose other restrictions on international financings by Russian issuers.

Any of the foregoing factors may limit the amount of capital available to meet our operating requirements. If we cannot obtain adequate funds to satisfy our capital requirements, we may need to limit our operations significantly, which could have a material adverse effect on our business, financial condition and results of operations.

From time to time, we may merge certain subsidiaries for operational reasons. Under Russian law, such mergers would be considered a reorganization and the merged subsidiaries would be required to notify their creditors of this reorganization. Russian law also provides that, for a period of 30 days after notice, these creditors would have a right to accelerate the merged subsidiaries’ indebtedness and demand reimbursement for applicable losses. In the event that we decide to undertake any such merger and all or part of certain of our subsidiaries’ indebtedness is accelerated, we and such subsidiaries may not have the ability to raise the funds necessary for repayment and our business and financial condition could be materially adversely affected.

Fluctuations in exchange rates could materially adversely affect our business.

Our business, financial condition and results of operations may be adversely affected by changes in exchange rates. We are exposed to the risk that currency changes will reduce our revenues or margins on the products and services we sell. In addition, we conduct our business and incur costs in the local currency of most countries where we operate. Since our consolidated financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and local currencies and, to the extent applicable, between local currencies and the currencies in which revenues are generated and expenses are incurred, have had, and will continue to have, an impact on our business, financial condition and results of operations. In addition, if the ruble declines against the U.S. dollar, we could have difficulty repaying or refinancing our U.S. dollar-denominated indebtedness, including our 7.875% Notes due 2009.

Inflation could increase our costs and decrease operating margins.

The Russian economy has been characterized by high rates of inflation. In 2005, the inflation rate was 10.9%, according to Rosstat. As we tend to experience inflation-driven increases in certain of our costs, including salaries, rents and energy costs which are sensitive to rises in the general price level in Russia, our costs in U.S. dollar terms will rise. In this situation, due to competitive pressures, we may not be able to raise the prices we charge for our products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation in Russia could increase our costs and decrease operating margins.

Restrictive currency regulations or limited foreign currency markets in Russia could hinder our ability to conduct our business.

In the past, Russian currency regulations imposed various restrictions on operations involving foreign currencies in an attempt to support the ruble. With effect from January 1, 2007, most of these restrictions will be removed. However, the government and the Central Bank of the Russian Federation may impose requirements on cash inflows and outflows into and out of Russia or on the use of foreign currency in Russia in the future. For example, Russian companies currently must repatriate proceeds from export sales. Moreover, the foreign currency market in Russia is still developing, and we may experience difficulty in converting rubles into other currencies. A majority of our major capital expenditures and payments to vendors and substantially all of our debt are denominated and payable in various foreign currencies, including the U.S. dollar and euro. Any delay or difficulty in converting rubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit our ability to meet our payment and debt obligations, which could result in the acceleration of debt obligations and cross-defaults, or prevent us from carrying on necessary business transactions, including paying our foreign suppliers.

Furthermore, there are only a limited number of available ruble-denominated instruments in which we may invest our excess cash. Any balances maintained in rubles will give rise to losses if the ruble devalues against major foreign currencies. Moreover, these restrictions could prevent or delay any acquisition opportunities outside of Russia that we might wish to pursue.

Risks Relating to the Russian Federation and Ukraine

Economic Risks

Economic instability in Russia and Ukraine could adversely affect our business.

Since the dissolution of the Soviet Union in the early 1990s, the Russian and Ukrainian economies have experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to domestic enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and gray market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the population.

In addition, the Russian economy has been subject to abrupt downturns in the past. In particular, in August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its ruble-denominated securities, the Central Bank of the Russian Federation ("CBR") stopped its support of the ruble and a temporary moratorium was imposed on certain foreign currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation; a substantial decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets. Certain other CIS countries, including Ukraine, were similarly affected by these events.

These problems were aggravated by the near collapse of the Russian banking sector after the events of August 1998, as evidenced by the termination of the banking licenses of a number of major Russian banks. This further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies and resulted in the losses of bank deposits in some cases.

Recently, the Russian and Ukrainian economies have experienced positive trends, such as the increase in the gross domestic product, relatively stable national currencies, strong domestic demand, rising real wages and a reduced rate of inflation. However, these trends may not continue or may be abruptly reversed.

Recent turmoil in Ukraine could cause a decline in the Ukrainian economy and have a material adverse effect on our business, financial condition and results of operations.

In late 2005, a dispute arose between Russian and Ukraine regarding the price Ukraine pays for Russian gas following the decision of Russian gas monopoly Gazprom to increase the price from $50 to $230 per 1,000 cubic meters. Ukraine rejected this increase, and gas supplies from Russia to Ukraine were cut on January 1, 2006. An agreement was subsequently reached by the parties on January 4, 2006, under which Ukraine will pay an average of $95 per 1,000 cubic meters of gas. The deal was widely criticized in Ukraine, and was followed a week later by the Ukrainian parliament's dismissal of the government.

It is not yet clear how the increased gas prices will impact the Ukrainian economy, though it is expected that the government will largely bear the brunt of the increase. It is also unclear whether the agreement reached on January 4, 2006 between Russia and Ukraine will remain in force or ultimately breakdown amidst the political crisis in Ukraine, which could lead to renewed cuts in gas supply by Russia and potentially greater price increases.

The recent increases and potential for further instability in gas prices coupled with the political turmoil in Ukraine may cause a deterioration in the Ukrainian economy, which could have a material adverse effect on our business, financial condition and results of operations.

A decline in Ukraine-Russia relations could negatively impact our business, financial condition and results of operations.

The relationship between Ukraine and Russia has been historically strained due, among other things, to Ukraine's failure to pay arrears relating to the supply of energy resources, Russia's introduction of 20% VAT on Ukrainian imports, and border disputes. In addition, Russia's alleged support of Viktor Yanukovych, the rival candidate to current President Viktor Yuschenko, in Ukraine's 2004 presidential election had a further adverse impact on Ukraine-Russia relations, causing anti-Russian sentiments in Ukraine to intensify along with Ukraine's orientation towards Western European countries as its principal economic and political partners.

Tensions between Russian and Ukraine were recently ignited in relation to a dispute over the decision of Gazprom, the Russian gas monopoly, to increase the price of natural gas sold to Ukraine. Although this dispute was settled in January 2006 with the parties' entry into a new gas transportation contract requiring Ukraine to pay a significantly higher price for natural gas, the terms of this contract have been subject to severe criticism in Ukraine. The price increase is likely to adversely impact the Ukrainian economy.

A decline in Ukraine-Russia relations and its impact on the Ukrainian economy could materially adversely affect our business, financial condition and results of operations.

The Russian banking system remains underdeveloped, and another banking crisis could place severe liquidity constraints on our business.

Russia's banking and other financial systems are less developed or regulated in comparison with other countries, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The August 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. In addition, in 2004, the Central Bank of the Russian Federation revoked the licenses of some Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. Several privately-owned Russian banks collapsed or ceased or severely limited their operations, although Russian banks owned or controlled by the government or the Central Bank of the Russian Federation and foreign-owned banks generally were not adversely affected by the turmoil. Many Russian banks currently do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags far behind internationally accepted norms. Aided by inadequate supervision by the regulators, certain banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

Recently, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by a deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate ruble bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. In addition, the CBR has from time to time revoked the licenses of certain Russian banks, which resulted in market rumors about additional bank closures and many depositors withdrawing their savings. If a banking crisis were to occur, Russian companies would be subject to severe liquidity constraints due to the limited supply of domestic savings and the withdrawal of foreign funding sources that would occur during such a crisis.

There is currently a limited number of sufficiently creditworthy Russian banks. We hold the bulk of our excess ruble and foreign currency cash in Russian banks, including subsidiaries of foreign banks. Another banking crisis or the bankruptcy or insolvency of the banks from which we receive or with which we hold our funds could result in the loss of our deposits or affect our ability to complete banking transactions in Russia, which could have a material adverse effect on our business, financial condition and results of operations.

The infrastructure in Russia and Ukraine is inadequate, which could disrupt our business operations.

The infrastructure in Russia and Ukraine largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road networks; power generation and transmission systems; communication systems; and building stock. For instance, in May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major power outage in a large section of Moscow and some surrounding regions. The blackout disrupted the ground electric transport, including the metro system, led to road traffic accidents and massive traffic congestion, disrupted electricity and water supply in office and residential buildings and affected mobile communications. The trading on exchanges and the operation of many banks, stores and markets were also halted. The poor condition of physical infrastructure in Russia and Ukraine adds costs to doing business in these countries and can result in disruptions in our business operations.

Fluctuations in the global economy could materially adversely affect the Russian and Ukrainian economies and our business.

The Russian and Ukrainian economies are vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and Ukraine and businesses could face severe liquidity constraints, further materially adversely affecting these economies. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil could slow or disrupt the Russian economy or undermine the value of the ruble against foreign currencies. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy. Russia and Ukraine are also major producers and exporters of metal products and their economies are vulnerable to fluctuations in world commodity prices and the imposition of tariffs and/or antidumping measures by the United States, the European Union or by other principal export markets.

Political and Social Risks

Political and governmental instability in Russia could materially adversely affect our business, financial condition and results of operations and the value of our shares and GDRs.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

Current and future changes in the government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. In addition, the Russian presidential elections scheduled for 2008 could bring more volatility to the market. Any disruption or reversal of reform policies could lead to political or governmental instability or the occurrence of conflicts among powerful economic groups, which could have a material adverse effect on our business, financial condition and results of operations and the value of our shares and GDRs.

Recent political turmoil in Ukraine could have a material adverse effect on our operations in Ukraine, and on our business, financial condition and results of operations.

The Ukrainian parliament voted to dismiss the Ukrainian government on January 10, 2006, less than four months after the last government was dismissed by the Ukrainian president. The latest vote occurred in the wake of widespread criticism of the government for signing a controversial deal on gas supplies from Russia earlier in the month.

Changes to the Ukrainian constitution introduced on January 1, 2006 shifted important powers from the president to parliament, including the right to name the prime minister and form a government. With these new powers, there is a risk that the impasse between the president and parliament will evolve into a protracted political struggle and cause Ukraine's economy to decline. It is also unclear whether Ukraine will continue on the course of political reform initiated by President Yuschenko along with his pro-Western orientation and inclination to work more closely with NATO and the EU. On March 26, 2006, a parliamentary election was held in Ukraine and Viktor Yanukovych became the prime-minister on August 4, 2006.

Any disruption or reversal of political reforms in Ukraine could cause a deterioration in the political, social and economic environment in Ukraine which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

Conflict between central and regional authorities and other conflicts could create an uncertain operating environment hindering our long-term planning ability and could materially adversely affect the value of investments in Russia, including the value of our shares and GDRs.

The Russian Federation is a federation of 86 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatization, land legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders our long-term planning efforts and creates uncertainties in our operating environment, both of which may prevent us from effectively and efficiently implementing our business strategy.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the conflict in Chechnya. Violence and attacks relating to this conflict have spread and several terrorist attacks have been carried out by Chechen terrorists in other parts of Russia, including in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia. These factors could materially adversely affect our business and the value of our shares and GDRs.

In Ukraine, tensions between certain regional authorities and the central government were recently ignited following the November 2004 presidential elections. Amid the mass demonstrations and strikes that took place throughout Ukraine to protest the election process and results, the regional authorities in three regions in eastern Ukraine threatened to conduct referendums on creating a separate, autonomous region within Ukraine. Though the regional authorities backed down from these threats, and tensions in Ukraine subsided following the invalidation of the November election results and the new presidential election held in December 2004, the long-term effects of these events and their effect on relations among Ukrainians is not yet known.

Crime and corruption could disrupt our ability to conduct our business.

The political and economic changes in Russia and Ukraine in recent years have resulted in significant dislocations of authority. The local and international press have reported that significant organized criminal activity has arisen, particularly in large metropolitan centers. Property crime in large cities has increased substantially. In addition, the local press and international press have reported high levels of corruption, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further the commercial interests of certain government officials or certain companies or individuals. Additionally, some members of the Russian and Ukrainian media regularly publish disparaging articles in return for payment. The depredations of organized or other crime, demands of corrupt officials or claims that we have been involved in official corruption could result in negative publicity, could disrupt our ability to conduct our business effectively and could thus materially adversely affect our business, financial condition and results of operations and the value of the shares and GDRs.

Social instability could increase support for renewed centralized authority, nationalism or violence and thus materially adversely affect our operations.

The failure of the government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labor and social unrest. Labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority; increased nationalism, including restrictions on foreign involvement; and increased violence. An occurrence of any of the foregoing events could restrict our operations and lead to the loss of revenues, materially adversely affecting our operations.

Legal Risks and Uncertainties

Weaknesses relating to the legal system and legislation create an uncertain environment for investment and business activity, which could have a material adverse effect on the value of our shares and GDRs.

Each of Russia and Ukraine is still developing the legal framework required to support a market economy. The following risk factors relating to the Russian and Ukrainian legal systems create uncertainty with respect to the legal and business decisions that we make, many of which uncertainties do not exist in countries with more developed market economies:

- inconsistencies between and among the Constitution, federal law, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of judicial and administrative guidance on interpreting legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- the relative inexperience of judges and courts in interpreting legislation;
- lack of an independent judiciary;
- corruption within the judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and
- poorly developed bankruptcy procedures that are subject to abuse.

The recent nature of much of Russian and Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian and Ukrainian legal systems in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian and Ukrainian legislation often contemplates implementing regulations which have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability to enforce our rights under our licenses and contracts, or to defend itself against claims by others. We cannot assure you that regulators, judicial authorities or third parties will not challenge our compliance with applicable laws, decrees and regulations.

The judiciary's lack of independence and overall inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent us or holders of our shares and GDRs from obtaining effective redress in a court proceeding, materially adversely affecting the value of our shares and GDRs.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in each of Russia and Ukraine remain largely untested. The court system in each of Russia and Ukraine is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Judicial precedents generally have no binding effect on subsequent decisions. Not all Russian and Ukrainian legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. The Russian and Ukrainian judicial systems can be slow or unjustifiably swift. Enforcement of court orders can, in practice, be very difficult in Russia and Ukraine. Additionally, court claims are often used in furtherance of political and commercial aims or infighting. We may be subject to such claims and may not be able to receive a fair hearing. Additionally, court orders are not always enforced or followed by law enforcement agencies, and the government may attempt to invalidate court decisions by backdating or retroactively applying relevant legislative changes. Judicial decisions in Russia and Ukraine can be unpredictable and may not provide effective redress.

These uncertainties also extend to property rights. During Russia's and Ukraine's transformation from centrally planned economies to market economies, legislation has been enacted in both countries to protect private property against expropriation and nationalization. However, it is possible that due to the lack of experience in enforcing these provisions and due to political factors, these protections would not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of our entities, their assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on our business.

Selective or arbitrary government action could have a material adverse effect on our business, financial condition and results of operations.

Governmental authorities in Russia and Ukraine have a high degree of discretion and, at times, act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is inconsistent with legislation or influenced by political or commercial considerations. Selective or arbitrary governmental actions have reportedly included the denial or withdrawal of licenses, sudden and unexpected tax audits and claims, criminal prosecutions and civil actions. Federal and local government entities have also used ordinary defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances and registrations or to void transactions, often for political purposes. Moreover, the government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Standard & Poor's, a provider of independent credit ratings, has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups." In this environment, our competitors may receive preferential treatment from the government, potentially giving them a competitive advantage over us.

In addition, recently, the Russian tax authorities aggressively have brought tax evasion claims on the basis of certain Russian companies' use of tax-optimization schemes, and press reports have speculated that these enforcement actions have been selective and politically motivated. Selective or arbitrary government action, if directed at us, could have a material adverse effect on our business, financial condition and results of operations.

Lack of developed corporate and securities laws and regulations in Russia could limit our ability to attract future investment.

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than, for example, in the United States or the European Union. Many Russian securities regulations have only recently been adopted. In addition, the Russian securities market is regulated by several different authorities, which are often in competition with each other. These include:

- the FSFM;
- the Ministry of Finance;
- the Russian Federal Anti-Monopoly Service ("FAS");
- the CBR; and
- various professional self-regulatory organizations.

The regulations of these various authorities are not always coordinated and may be contradictory.

In addition, Russian corporate and securities rules and regulations can change rapidly, which may materially adversely affect our ability to conduct securities related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to our group. The FSFM has recently introduced a number of regulations relating to offerings of shares in and outside of Russia, including combined offerings involving closed subscription for new shares and the sale of existing shares, which remain largely untested and subject to varying interpretations. Any challenges of such regulations or transactions consummated pursuant to them could have an adverse effect on the offering and our ability to effect similar equity offerings in the future. As a result, we may be subject to fines and/or other enforcement measures despite our best efforts at compliance, which could have a material adverse effect on our business, financial condition and results of operations.

There is little minority shareholder protection in Russia.

Minority shareholder protection under Russian law principally derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of actions. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital" for a more detailed description of some of these protections. In practice, enforcement of these protections has been poor. Shareholders of some companies have also suffered as a result of fraudulent bankruptcies initiated by hostile creditors.

The supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are present at a shareholders' meeting. Thus, controlling shareholders owning slightly less than 75% of outstanding shares of a company may have a 75% or more voting power if certain minority shareholders are not present at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting, they are in a position to approve amendments to the charter of the company or significant transactions including asset transfers, which could be prejudicial to the interests of minority shareholders. It is possible that our controlling shareholder in the future may not run us and our subsidiaries for the benefit of minority shareholders, and this could have a material adverse effect on the value of the shares and GDRs.

While the Federal Law on Joint Stock Companies ("Joint Stock Companies Law") provides that shareholders owning not less than 1% of the company's stock may bring an action for damages on behalf of the company, Russian courts to date do not have much experience with such lawsuits. Russian law does not contemplate class action litigation. Accordingly, your ability to pursue legal redress against us may be limited, reducing the protections available to you as a holder of the shares and GDRs.

Shareholder liability under Russian legislation could cause us to become liable for the obligations of our subsidiaries.

The Civil Code of the Russian Federation and the Federal Law on Joint Stock Companies generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when one company is capable of determining decisions made by another company. The company capable of determining such decisions is deemed an "effective parent." The company whose decisions are capable of being so determined is deemed an "effective subsidiary." Under the Federal Law on Joint Stock Companies, the effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent. This is the case no matter how the effective parent's ability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses. Accordingly, we could be liable in some cases for the debts of our subsidiaries. The total liabilities of our Russian subsidiaries, as of September 30, 2006, was $11.8 million. This liability could have a material adverse effect on our business, results of operations and financial condition.

Shareholder rights provisions under Russian law could impose significant additional obligations on us.

Russian law provides that shareholders that vote against or abstain from voting on certain matters have the right to sell their shares to the company at market value in accordance with Russian law. The decisions that trigger this right to sell shares include:

- decisions with respect to a reorganization;
- the approval by shareholders of a "major transaction," which, in general terms, is a transaction involving property worth more than 50% of the gross book value of a company's assets calculated according to Russian accounting standards, regardless of whether the transaction is actually consummated; and
- the amendment of its charter in a manner that limits shareholder rights.

Our (or, as the case may be, our subsidiaries') obligation to purchase shares in these circumstances, which is limited to 10% of the company's net assets calculated in accordance with Russian accounting standards at the time the matter at issue is voted upon, could have a material adverse effect on our results of operations and financial condition.

The lack of a central and rigorously regulated share registration system in Russia may result in improper record ownership of our shares, including the shares underlying the GDRs.

Ownership of Russian joint stock company shares (or, if the shares are held through a nominee or custodian, then the holding of such nominee or custodian) is determined by entries in a share register and is evidenced by extracts from that register. Currently, there is no central registration system in Russia. Share registers are maintained by the companies themselves or, if a company has more than 50 shareholders or so elects, by licensed registrars. Regulations have been issued regarding the licensing conditions for such registrars, as well as the procedures to be followed by both companies maintaining their own registers and licensed registrars when performing the functions of registrar. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalization and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Due to the lack of a central and rigorously regulated share registration system in Russia, transactions in respect of a company's shares could be improperly or inaccurately recorded, and share registration could be lost through fraud, negligence, official and unofficial governmental actions or oversight by registrars incapable of compensating shareholders for their misconduct. This creates risks of loss not normally associated with investments in other securities markets. Further, the Depositary, under the terms of the Deposit Agreements, will not be liable for the unavailability of shares or for the failure to make any distribution of cash or property with respect thereto due to the unavailability of the shares. See "Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Registration and Transfer of Shares" and "Description of the Global Depositary Receipts—Russian Share Register" for a further discussion of the share registration system and registrars in the Russian Federation.

Characteristics of and changes in the Russian tax system could materially adversely affect our business, financial condition and results of operations and the value of the shares and GDRs.

Generally, taxes payable by Russian companies include, among others:

- profits tax;
- value-added tax ("VAT");
- unified social tax; and
- property and land taxes.

Laws related to these taxes have been in force for a short period relative to tax laws in more developed market economies and few precedents with regard to the interpretation of these laws have been established. Recently, there have been significant changes to the Russian taxation system. Global tax reforms commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation ("Tax Code"), which sets general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate profits tax, VAT and property tax with new chapters of the Tax Code.

Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose severe fines, penalties and interest charges. Generally, in an audit taxpayers are subject to inspection with respect to the three calendar years which immediately preceded the year in which the audit is carried out. Previous audits do not completely exclude subsequent claims relating to the audited period because Russian tax law authorizes upper-level tax inspectorates to reaudit taxpayers which were audited by subordinate tax inspectorates. In addition, on July 14, 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax audit. Because none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed" or "hindered" an audit and ultimately seek back taxes and penalties beyond the three-year term. In some instances, new tax regulations have been given retroactive effect. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretations of the legislation and assessments.

Moreover, financial results of Russian companies cannot be consolidated for tax purposes. Therefore, each of our Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of any of our other subsidiaries. In addition, intercompany dividends are subject to a withholding tax of 9%, if being distributed by Russian companies to Russian companies, and 15%, if being distributed by foreign companies to Russian companies or by Russian companies to foreign companies. Dividends from foreign companies to Russian companies are subject to a tax of 15% against which it may be possible to offset taxes withheld from the dividends in countries with whom Russia has an applicable double-taxation treaty and this treaty provides for a possibility of such offset. If the receiving Russian company itself pays a dividend, it may offset tax withheld against its own withholding liability of the onward dividend although not against any withholding made on a distribution to a foreign company. These tax requirements impose additional burdens and costs on our operations, including management resources.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on our operations, including management resources. In addition to our substantial tax burden, these risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant fines and penalties and enforcement measures despite our best efforts at compliance. See also "—Risks Relating to the Russian Federation and Ukraine—Legal Risks and Uncertainties—Selective or arbitrary government action could have a material adverse effect on our business, financial condition and results of operations."

Russian thin capitalization rules could affect our ability to deduct interest on certain borrowings.

Russian thin capitalization rules limit the amount of interest that can be deducted by a Russian company on debts payable to non-resident shareholders. Until January 1, 2006, these rules applied only to loans issued to a Russian company by a foreign shareholder owning directly or indirectly more than 20% of the share capital of the Russian company. However, thin capitalization rules that came into effect on January 1, 2006 extend the rules' application to loans issued to a Russian company by another Russian company that is affiliated with the foreign shareholder as well as to loans secured by such foreign shareholder or its affiliated Russian company. It is not yet fully clear how these new rules will be applied in practice by the Russian tax authorities.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may adversely affect our business, financial condition and results of operations.

Russian transfer pricing rules effective since 1999 give Russian tax authorities the right to control prices for transactions between related entities and certain other types of transactions between unrelated parties, such as foreign trade transactions or transactions with significant price fluctuations if the transaction price deviates by more than 20% from the market price. Special transfer pricing rules apply to operations with securities and derivative instruments. The Russian transfer pricing rules are vaguely drafted, and are subject of interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge our prices and make adjustments which could affect our tax position. If such tax adjustments become effective, our results of operations could be materially adversely affected. In addition, we could face significant losses associated with the assessed amount of underpaid prior tax and related interest and penalties.

In addition, a number of draft amendments to the transfer pricing law have recently been introduced which, if implemented, would considerably toughen the existing law. The proposed changes, among other things, may shift the burden of proving market prices from the tax authorities to the taxpayer, cancel the existing permitted deviation threshold and introduce specific documentation requirements for proving market prices.

Risks Relating to the GDRs, the Shares and the Trading Market

Because the Depositary may be considered the owner of the shares underlying the GDRs, these shares may be arrested or seized in legal proceedings in Russia against the Depositary.

Many jurisdictions, such as the United Kingdom and the United States, recognize a distinction between legal owners of securities, such as the Depositary, and the beneficial owners of securities, such as the GDR holders. In these jurisdictions, the shares held by the Depositary on behalf of the GDR holders would not be subject to seizure in connection with legal proceedings against the Depositary that are unconnected with the shares.

Russian law may not, however, recognize a distinction between legal and beneficial ownership of securities. Russian law generally treats a depositary as the owner of shares underlying the GDRs and, accordingly, may not recognize GDR holders' beneficial ownership therein.

Thus, in proceedings brought against a depositary, whether or not related to shares underlying the GDRs, Russian courts may treat those underlying shares as the assets of the depositary, open to seizure or arrest. In the past, a lawsuit was filed against a depositary other than the Depositary seeking the seizure of various Russian companies' shares represented by GDRs issued by that depositary. In the event that this type of suit were to be successful in the future against the Depositary, and the shares underlying our GDRs were to be seized or arrested, the GDR holders involved would lose their rights to such underlying shares and all of the money invested in them.

GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders.

Under the terms of the Deposit Agreements, all GDRs shall be deemed to be issued on a provisional basis until the placement report is registered by the FSFM in respect of the newly issued shares of Sitronics. Until the placement report is registered, GDR holders will not be able to withdraw the shares underlying their GDRs or instruct the Depositary to exercise voting rights with respect to the shares that underlie their GDRs, as they would ordinarily be able to do. Such limitations on withdrawal and voting of the underlying ordinary shares apply with equal force to all shares deposited with the Depositary against the provisional issuance of GDRs prior to the registration of the placement report, whether deposited by us or by the Selling Shareholders with the Depositary at closing against the issuance of GDRs in connection with the offering, or otherwise.

The form of the placement report requires us to disclose information about the recipients of the newly issued shares and the total number of shares actually placed. For purposes of such disclosure requirements, we will name the Depositary as the recipient of the newly issued shares. Russian law requires that we file the placement report within 30 days following the completion of the placement, which is specified to occur on the 36th day after the date of the underwriting agreement in our share registration documents in order to allow for the issuance of shares in connection with the Over-allotment Option. We intend to file the placement report as soon as practicable following the completion of the placement. The FSFM is statutorily required to make its decision within two weeks after we file the placement report but it may take longer or the registration of the placement report may not occur at all. The FSFM may refuse to register the placement report if, among other things, we violated Russian law in the issuance process and a Russian court may also hold the placement invalid for such violations.

In the event that the placement report is not registered by the FSFM within 60 days after the Closing Date (or such later date as we agree with the Underwriters), we will issue a press release and notify the Depositary and the London Stock Exchange, and trading in the GDRs will be cancelled. Under Russian law, in the case of non-registration of the placement report we are required to return the full amount of proceeds that were initially deposited into our account on the Closing Date and the Over-allotment Option closing date (if any). Such amount will be paid to the Depositary for remittance to the holders of the GDRs, and the GDRs will represent the right to receive a proportional interest in the funds so received. The Depositary will then promptly cancel such number of GDRs as corresponds to the number of newly issued shares being cancelled on a pro rata basis or on such other basis as it deems practicable in its sole discretion, and distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received, pro rata or on such other basis as it deems practicable to the then holders of GDRs, subject to the terms of the Deposit Agreements. The amount per GDR ultimately delivered to holders of GDRs will be less than the initial public offering price per GDR. The delivery of funds may be subject to applicable withholding taxes and may be delayed or diminished due to Russian currency control, banking and securities regulations or practices (including those potentially requiring the conversion of funds from or into rubles) and may be prevented if there is a change in such regulations or practices. GDR holders will be taking credit risk on us and the Underwriters for the delivery of funds in the event that the placement report is not registered.

Voting rights with respect to the shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law.

GDR holders will have no direct voting rights with respect to the shares represented by the GDRs. They will be able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the Deposit Agreements relating to the GDRs and relevant requirements of Russian law. Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with them. For example, the Joint Stock Companies Law requires us to notify shareholders no less than 30 days prior to the date of any meeting and at least 70 days prior to the date of an extraordinary meeting to elect our Board of Directors and to pass upon certain other matters. Our shareholders will receive notice directly from us and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders by comparison, will not receive notice directly from us. Rather, in accordance with the Deposit Agreements, we will provide the notice to the Depositary. The Depositary has undertaken, in turn, as soon as practicable thereafter, if requested by us in writing in a timely manner and at our expense, and provided there are no U.S., UK or Russian legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK listing authority and the admission and disclosure standards of the London Stock Exchange or the rules of any Russian stock exchange on which the shares are listed) to distribute to GDR holders notice of such meeting, copies of voting materials (if and as received by the Depositary from us) and a statement as to the manner in which instructions may be given by GDR holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the shares represented by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the shares and we cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the shares underlying the GDRs in accordance with instructions from GDR holders, there is little court or regulatory guidance on the application of such regulations, and the Depositary may choose to refrain from voting at all unless it receives instructions from all GDR holders to vote the shares in the same manner. GDR holders may thus have significant difficulty in exercising voting rights with respect to the shares underlying the GDRs. We cannot assure you that holders and beneficial owners of GDRs will (1) receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary, (2) receive notice to enable the timely cancellation of GDRs in respect of shareholder actions or (3) be given the benefit of dissenting or minority shareholders' rights in respect of an event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions. See "Description of the Global Depositary Receipts—Voting Rights" for a description of the voting rights of holders of GDRs and "Registration of Placement Report" for a description of limitations on voting rights in respect of newly issued shares underlying the GDRs prior to the registration of the placement report.

The depositary is only required to execute the voting instructions of the holders of GDRs insofar as practicable and as permitted under applicable law. In practice, holders of GDRs may not be able to instruct the Depositary to (1) vote the shares represented by their GDRs on a cumulative basis, (2) introduce proposals for the agenda of shareholders' meetings or request that a shareholders' meeting be called or (3) nominate candidates for our Board of Directors or our review commission. If GDR holders wish to take such actions, they should timely request that their GDRs be cancelled and take delivery of the shares and thus become the owner of the shares on our share register.

Because there has been no prior active public trading market for the shares or GDRs, the offering may not result in an active or liquid market for the shares and GDRs, and their price may be highly volatile.

Before the offering, there has been no public trading in our shares or GDRs. Although application has been made for the GDRs to be admitted to trading on the London Stock Exchange, an active public market may not develop or be sustained after the offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If a liquid trading market for the shares and GDRs does not develop, the price of the shares and GDRs may become more volatile and it may be more difficult to complete a buy or sell order for such shares and GDRs.

The liquidity of a securities market is often a function of the volume of the underlying shares that are publicly held by unrelated parties. Although GDR holders are entitled to withdraw the shares underlying the GDRs from the Depositary (following the registration of the placement report with the FSFM), there is currently no trading of our shares and there may only be a very limited public free float in the future. In addition, upon withdrawal, GDR holders will receive the shares being sold by the Selling Shareholders (if any are deposited in the GDR program), which can be traded on the Moscow Stock Exchange or RTS, and, if no such shares remain in the GDR program, GDR holders will receive shares being sold by us in the form of GDRs in the offering, which cannot be traded on the Moscow Stock Exchange or RTS until at least three months after the date of the registration of the placement report. Also, the inability to convert the shares into GDRs due to the restrictions that no more than

35% of a Russian company's shares may be circulated abroad through depositary receipt programs, may have an adverse effect on the development of a liquid trading market for the shares and GDRs.

Furthermore, low trading volumes or the low amount of shares publicly held by unrelated parties may result in a delisting of the shares and the imposition of other liabilities, which would have a material adverse effect on the liquidity of the shares and GDRs.

The trading prices of the shares and GDRs may be subject to wide fluctuations in response to a number of factors. In addition, the Russian stock market has experienced extreme price and volume fluctuations. Moreover, the market price of the shares and GDRs may decline below the offering price, which will be determined by negotiation between us, the Selling Shareholders and representatives of the Underwriters.

You may be unable to repatriate distributions made on the shares.

We intend to pay dividends, if any, on the shares in rubles. The Depositary will also receive dividends in respect of the shares underlying the GDRs in rubles. The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no liquid market in which to hedge ruble and ruble-denominated investments.

You will experience immediate and substantial dilution.

The offer price of the shares and GDRs is substantially higher than the net book value per share and per GDR. That is, holders of GDRs will contribute 46.8% of our total book equity capitalization as of September 30, 2006, but will own only 16.2% of our total equity outstanding, assuming the Underwriters do not exercise the Over-allotment Option.

Future sales of shares or GDRs may affect the market price of the shares and GDRs.

Sales, or the possibility of sales, of substantial numbers of the shares or GDRs in the public markets, including the Russian stock market, following the offering could have an adverse effect on the market trading prices of the shares and GDRs. Our subsequent equity offerings may reduce the percentage ownership of our shareholders. Moreover, newly issued preferred shares may have rights, preferences or privileges senior to those of the shares.

GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid to the Depositary.

Under Russian law, dividends paid to a non-resident holder of the shares generally will be subject to Russian withholding tax at a rate of 15% for legal entities and organizations and at a rate of 30% for individuals. Russian tax rules applicable to the holders of the GDRs are characterized by significant uncertainties and, until recently, by an absence of interpretive guidance. In 2005 and 2006, the Ministry of Finance of the Russian Federation expressed its opinion in private rulings that holders of global depositary receipts should be treated as the beneficial owners of the dividends paid on underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax treaty residence of the holders of the global depositary receipts is duly confirmed. However, the Russian tax authorities have not provided official guidance of general applicability addressing how a GDR holder should demonstrate its beneficial ownership in the underlying shares. In the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat the GDR holders in this regard.

Unless we receive adequate clarification from the Russian competent authorities that it is permitted under Russian law to withhold Russian withholding tax in respect of dividends it pays to the Depositary at a lower rate than the domestic rate applicable to such payments (currently 15%), we intend to withhold Russian withholding tax at the domestic rate applicable to such dividends, regardless of whether the Depositary (the legal owner of the shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the dividends for purposes of that treaty. Although non-resident GDR holders may apply for a refund of a portion of the amount so withheld by us under the relevant income tax treaty, we cannot make any assurances that the Russian tax authorities will grant any refunds. See "Taxation—Russian Federation Tax Considerations—Taxation of Dividends—Non-Resident Holders."

Non-resident investors may be subject to Russian tax withheld at source on trades of the shares or GDRs through or to certain Russian payors.

Under Russian tax law, gains arising from a sale, exchange or other disposition by non-resident holders that are legal entities or organizations of Russian securities, such as the shares, as well as financial instruments derived from such securities, such as the GDRs, may be subject to Russian profits tax to be withheld at source by the Russian payor of the income.

However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered presence in Russia. Gains arising from a sale, exchange or other disposition of the foregoing types of securities on foreign stock exchanges by non-resident holders that are legal entities are, as a practical matter, not subject to taxation in Russia. Therefore, as long as the GDRs remain listed on a foreign stock exchange, gains arising from a sale, exchange or other disposition on that foreign stock exchange of the GDRs by non-resident legal entities or organizations to other non-resident legal entities or organizations should not be subject to taxation in Russia.

Capital gains derived by individual non-resident holders from their disposition of Russian shares or securities, such as the shares or GDRs, will be considered Russian-source income, and generally will be subject to Russian tax withheld at source if the disposition is made through or to a professional dealer or broker that is a Russian legal entity or a foreign company with a permanent establishment in Russia.

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. investors.

We do not expect to be considered a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes for our taxable year ending December 31, 2007. However, the determination of whether we are a PFIC is a factual determination made annually after the end of each year and our PFIC status may greatly depend on the price of the shares and GDRs, which may fluctuate considerably, and the manner in which and how quickly we spend the cash we receive in this offering and other financing transactions. Therefore, there can be no assurance that we will not be treated as a PFIC for our current taxable year or any future taxable year. If we were to be treated as a PFIC, certain adverse U.S. federal income tax consequences could apply to U.S. investors. See "Taxation—Certain Material United States Federal Income Tax Considerations—Passive Foreign Investment Company."

Following the offering you may not be able to deposit shares in the GDR program in order to receive GDRs.

Whenever the Depositary believes that the ordinary shares deposited with it against issuance of GDRs (together with any other securities deposited with it against the issuance of depositary receipts and any other securities held by us and our affiliates for our or their proprietary accounts or as to which we or they exercise voting and investment power) represent (or, upon accepting any additional shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies any condition for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, the Depositary may (1) close its books to deposits of additional shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (2) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of underlying shares from the depositary receipt program to the extent necessary or desirable to so comply.

Russian securities regulations provide that no more than 35% of a Russian company's shares may be circulated abroad through depositary receipt programs or otherwise. We have received permission from the FSFM for up to 25% of our shares to be circulated abroad through depositary receipt programs. Upon the completion of the offering and assuming all shares offered hereby (including pursuant to the Over-allotment Option) are subsequently deposited into the GDR program, the GDR program will account for approximately 18.61% of our shares. There can be no assurance that we will be able to obtain approval for a deposit of a greater number of shares in the GDR program than we currently have approval for, and any remaining capacity may be used by our other existing shareholders. Thus following the offering, you may not be able to deposit shares in the GDR program in order to receive GDRs.

In addition, under Russian corporate law, a person that has acquired more than 30%, 50% or 75% of an open stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares. From the moment of the relevant acquisition until the date the offer is sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% (or as the case may be, 50% or 75%) of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). See "Description of Share Capital and Certain Requirements of Russian Legislation—Change in Control—Anti-takeover protection." Under Russian law, the Depositary may be considered the owner of the shares underlying the GDRs, and as such may be subject to the mandatory public tender offer rules. See "—Because the Depositary may be considered the owner of the shares underlying the GDRs, these shares may be arrested or seized in legal proceedings in Russia against the Depositary." In addition, in a letter to the Depositary in July 2006, the Russian securities regulatory authority took the general position that the mandatory public tender offer rules do apply to a depositary bank. Accordingly, at present, the mandatory tender offer rules result in a *de facto* cap on our GDR program of 29.99% of our shares.

In addition, under Russian anti-monopoly legislation, transactions exceeding a certain amount involving companies with a combined value of the assets under Russian accounting standards that exceeds a certain threshold or companies registered as having more than a 35% share of a certain commodity market, and resulting in a shareholder (or a group of affiliated shareholders) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets the value of which exceeds a certain amount, must be approved in advance by the FAS. See "Description of Share Capital and Certain Requirements of Russian Legislation—Change in Control—Approval of the Russian anti-monopoly service." The Depositary has received general interpretive guidance from FAS that it need not obtain the approval referred to in the preceding sentence in connection with depositary receipt programs such as our GDR program. If, however, FAS were to rescind or disregard its above mentioned interpretation, our GDR program would be subject to a de facto cap of 24.99% of our shares, unless the Depositary could obtain FAS approval for a higher percentage.

Therefore, it may not be possible to deposit shares into our GDR program in order to receive GDRs, and under certain circumstances you may be required to withdraw shares from the GDR program, which may in either case affect the liquidity and the value of your investment.

The aforementioned restrictions have been changed in the past and may be subject to changes at any time in the future by the Russian regulatory authorities, and there can be no assurance that the authorities will not reduce the permitted percentage of trading in GDRs. Such new regulations could have a material adverse effect on our business, financial condition and results of operations and the value of the shares and GDRs.

Any additional issuance of our shares is registered with the FSFM, and is assigned a provisional state registration number, containing a suffix distinguishing it from the previous issuance of our shares of the same class. Following completion of the issuance, the provisional suffix is cancelled. Under Russian law, the FSFM must cancel the suffix upon the expiration of three months following the registration of the placement report for the issuance (or, if applicable, upon the expiration of three months following the filing of a notice of the results of the issuance), but in practice such cancellation may be delayed beyond the prescribed term. The FSFM permission for our GDR program expressly permits the deposit of shares having specific registration numbers, namely, 1-01-50038-A, our general share registration number, and 1-01-50038-A-003D, the provisional number for the newly issued shares in the offering. Shares issued in the future having a different registration number may not be deposited in our GDR program. As a result, the Depositary may be entitled to refuse a deposit of shares having a different registration number than those set out in the FSFM permission for the GDR program.

The shares may be de-listed from the Moscow Stock Exchange or the RTS, the FSFM permission for the GDR program may be revoked, and the GDR facilities may have to be terminated.

Maintenance of our "V" listing on the Moscow Stock Exchange and on RTS, and, upon expiration of the six-month term of the "V" listing, either the "A" or "B" listing, will require us to meet relevant listing requirements, including, among other, to comply with securities laws and regulations of the FSFM, and with certain minimum corporate governance requirements as well as minimum trading volumes. A material failure to comply with these listing requirements may constitute grounds for de-listing a company such as ours, either by express de-listing, or denial of transition to the "A" or "B" listing upon expiration of the "V" listing term.

While we are not aware of any other Russian issuer that has been de-listed on such grounds or has had its GDR permit revoked, this gap in the Russian securities regulatory regime creates uncertainty as to whether a failure to comply with corporate governance requirements may have such consequences. A Russian stock exchange de-listing and/or a GDR permit revocation would have a material adverse effect on the value of our shares and the GDRs.

THE OFFERING

The Company	JSC SITRONICS, an open joint stock company under the laws of the Russian Federation.
The Selling Shareholders	• Alexander Goncharuk; • Gennady Krasnikov; and • Alexander Titov.
The Offering	The Offering consists of 1,675,000,000 shares, comprised of 1,549,839,200 newly issued shares by Sitronics to be placed in the form of GDRs and 125,160,800 shares to be placed by the Selling Shareholders in the form of shares. The GDRs are being offered in the United States to QIBs in reliance on Rule 144A and outside the United States and the Russian Federation to certain persons in offshore transactions in reliance on Regulation S. The shares are being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. The GDRs will be delivered by Deutsche Bank Trust Company Americas, an affiliate of Deutsche Bank AG, London Branch, as Depositary.
Share Capital	Our share capital consists of 7,997,247,990 ordinary shares, each with a nominal value of one ruble, which are fully paid and issued. In addition, we are authorized by our charter to issue an additional 7,410,294,010 shares. Our shares have the rights described under "Description of Share Capital and Certain Requirements of Russian Legislation."
The GDRs	One GDR will represent 50 shares on deposit with Deutsche Bank Ltd., as Custodian. The GDRs will be issued pursuant to one of two separate deposit agreements, one relating to the Rule 144A GDRs ("Rule 144A Deposit Agreement") and one relating to the Regulation S GDRs ("Regulation S Deposit Agreement"), among us, the Depositary and holders and beneficial owners from time to time of the relevant GDRs. The Rule 144A Deposit Agreement and the Regulation S Deposit Agreement are herein referred to as the Deposit Agreements. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR Certificate and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR Certificate, each to be issued pursuant to the relevant Deposit Agreement. The Master Regulation S GDR Certificate and the Master Rule 144A GDR Certificate are herein collectively referred to as the Master GDRs. Pursuant to the Deposit Agreements, the shares represented by the GDRs will be held in Russia by the Custodian, for the account of the Depositary and for the benefit of the holders and beneficial owners of GDRs. The Depositary may deduct per-GDR fees and other fees and expenses from dividend distributions and may otherwise assess other per-GDR fees and other fees and expenses to the GDR holders. See "Description of the Global Depositary Receipts—Fees and Charges." Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDR Certificates. Subject to the terms of the Deposit Agreements, interests in the Master Regulation S GDR Certificate may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR Certificate, and vice versa. See "Description of the Global Depositary Receipts," "Settlement and Delivery—The Clearing Systems—

	Registration and Form" and "Settlement and Delivery—Global Clearance and Settlement Procedures—Secondary Market Trading."
Offer Price	$0.24 per share and $12.00 per GDR.
Closing Date	Expected to be on or about February 12, 2007.
Over-allotment Option	We have granted to the Underwriters an option exercisable within 30 days after the announcement of the offer price, to purchase up to an additional 125,000,000 ordinary shares in the form of GDRs at the offer price, solely to cover over-allotments in the offering.
Registration of Placement Report	Trading in the GDRs on the London Stock Exchange will be subject to cancellation until the placement report for the newly issued shares being offered by us is registered by the Russian Federal Service for the Financial Markets. We have undertaken that if the placement report is not registered within 60 days after the Closing Date (or such later date as we agree with the Underwriters), we will deliver to the Depositary the proceeds of the GDRs sold by us and the Underwriters have agreed to deliver the underwriting commissions related to the GDRs sold by us. The Depositary will then distribute the funds thus received by it to the then holders of the GDRs pro rata or on such other basis as it deems practicable, subject to the terms of the Deposit Agreements. The amount per GDR ultimately returned to such holders of GDRs will be less than the initial public offering price per GDR, and may be subject to withholding taxes and delays. See "Registration of Placement Report." Until the registration of the placement report, all GDRs will be issued on a provisional basis and GDR holders will not be entitled to instruct the Depositary to exercise any voting rights as a shareholder, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. GDR holders may not withdraw the shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the underlying ordinary shares apply with equal force to all shares deposited with the Depositary against the provisional issuance of GDRs prior to the registration of the placement report, whether deposited by us or by the Selling Shareholders with the Depositary at closing against the issuance of GDRs in connection with the offering or otherwise. The foregoing will not, however, prohibit trading in the GDRs. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders."
Lock-up	We, the Selling Shareholders and Sistema have agreed, subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in us or securities convertible or exchangeable into or exercisable for any shares in us or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, from the

date hereof until 180 days from the Closing Date, without the prior written consent of the Joint Global Coordinators. However, such consent shall not be required for the sale of the shares to the Underwriters pursuant to the Underwriting Agreement. See "Subscription and Sale."

Transfer Restrictions

The shares and GDRs will be subject to certain restrictions on transfer as described under "Description of the Global Depositary Receipts," "Subscription and Sale" and "Settlement and Delivery."

Listing and Market for the Shares and GDRs

Our existing shares have been admitted to list "V" on the Moscow Stock Exchange under the symbol "SITR" and to list "V" on the RTS under the symbol "SITR" but are not traded.

Application has been made to (1) the FSA for a listing of 48,360,435 GDRs, consisting of up to 30,996,784 GDRs to be issued on or about the Closing Date, and up to 17,363,651 additional GDRs to be issued from time to time against the deposit of shares (to the extent permitted by law) with the Depositary, to be admitted to the Official List and (2) the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's regulated market for listed securities. Conditional trading in the GDRs on the London Stock Exchange is expected to commence on a when and if issued basis on or about February 7, 2007. Admission to the Official List and to trading on the London Stock Exchange's regulated market for listed securities are expected to take place on or about February 13, 2007.

The GDRs will trade on the London Stock Exchange under the symbol "SITR." Application has also been made to have the Rule 144A GDRs designated eligible for PORTAL. Trading in the GDRs on the London Stock Exchange and PORTAL is expected to commence on or about February 13, 2007.

In connection with the Over-allotment Option and otherwise, shares may be deposited, subject to the provisions set forth under "Description of the Global Depositary Receipts" and in the Deposit Agreements, with the Custodian against which deposit the Depositary shall deliver GDRs representing such shares (to the extent permitted by law) up to a maximum aggregate number of 48,360,435 GDRs, assuming the Underwriters exercise the Over-allotment Option in full. See also "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Following the offering you may not be able to deposit shares in the GDR program in order to receive GDRs."

Settlement Procedures

Payment for the GDRs is expected to be made in U.S. dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. The Underwriters and the Depositary will apply to DTC to have the Rule 144A GDRs accepted into DTC's book-entry settlement system. Upon acceptance by DTC, a single Master Rule 144A GDR Certificate will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR Certificate will be registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

	Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See "Settlement and Delivery." Each purchaser of the shares in the offering is required to pay for any such shares in U.S. dollars within one business day after share delivery. In order to take delivery of the shares, an investor should either have a direct account with our share registrar, OJSC Reestr, or a deposit account with CJSC Depositary Clearing Company ("DCC") or any other depositary that has an account with DCC or a direct account with our share registrar. Investors may at their own expense choose to hold the shares through a direct account with our share registrar. However, directly-held shares are ineligible for trading on the Moscow Stock Exchange and RTS. Only if the shares are deposited with DCC (or through another depositary having an account at DCC) can they be traded on RTS, and only if the shares are deposited with the Depositary and Settlement System ("DSS") (or through another depositary having an account in DSS) can they be traded on the Moscow Stock Exchange.
Voting	If you hold shares, you are generally entitled to one vote per share at a shareholders' meeting. See "Description of Share Capital and Certain Requirements of Russian Legislation—General Meetings of Shareholders." Under the Deposit Agreements, one GDR carries the right to vote 50 shares, subject to the provisions of the Deposit Agreements and applicable Russian law.
General Information	It is expected that the Rule 144A GDRs will be accepted for clearance through the facilities of DTC and the Regulation S GDRs will be accepted for clearance through Euroclear and Clearstream. The security numbers for the GDRs offered hereby are as follows:

Regulation S GDRs:	CUSIP: 46630F206 ISIN: US46630F2065 Common Code: 028160771
Rule 144A GDRs:	CUSIP: 46630F107 ISIN: US46630F1075 Common Code: 028160780
ISIN for shares:	RU000A0JP187
London Stock Exchange trading symbol:	SITR
Moscow Stock Exchange trading symbol:	SITR
RTS trading symbol:	SITR
PORTAL identification:	P46630F107

REGISTRATION OF PLACEMENT REPORT

Under Russian law, placement of the newly issued shares we are offering pursuant to this prospectus is subject to the registration of a placement report with the Federal Service for the Financial Markets ("FSFM"). Russian law requires that we file the placement report within 30 days following the completion of the placement, which is specified to occur on the 36th day after the date of the underwriting agreement in our share registration documents in order to allow for the issuance of shares in connection with the Over-allotment Option. We intend to file the placement report as soon as practicable following the completion of the placement. The FSFM is statutorily required to make its decision within two weeks after we file the placement report, but it may take longer or the registration of the placement report may not occur at all. Although it is not uncommon for the FSFM to refuse to register the placement report on technical grounds, no such refusals have been reported in relation to major international initial public offerings of Russian companies.

In the event that the placement report is not registered by the FSFM within 60 days after the Closing Date (or such later date as we agree with the Underwriters), we will issue a press release and notify the Depositary and the London Stock Exchange, and trading in the GDRs will be cancelled. Under Russian law, in the case of non-registration of the placement report we are required to return the full amount of proceeds that were initially deposited into our account on the Closing Date and the Over-allotment Option closing date (if any). Such amount will be paid to the Depositary for remittance to the holders of the GDRs, and the GDRs will represent the right to receive a proportional interest in the funds so received. The Depositary will then promptly cancel such number of GDRs as corresponds to the number of newly issued shares being cancelled on a pro rata basis or on such other basis as it deems practicable in its sole discretion, and distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received, pro rata or on such other basis as it deems practicable at its sole discretion to the then holders of GDRs, subject to the terms of the Deposit Agreements. The amount per GDR ultimately delivered to holders of GDRs will be less than the initial public offering price per GDR. The delivery of funds may be subject to applicable withholding taxes and may be delayed or diminished due to Russian currency control, banking and securities regulations or practices (including those potentially requiring the conversion of funds from or into rubles) and may be prevented if there is a change in such regulations or practices. GDR holders will be taking credit risk on us and the Underwriters for the delivery of funds in the event that the placement report is not registered.

Until the registration of the placement report, all GDRs will be issued on a provisional basis and GDR holders will not be entitled to instruct the Depositary to exercise any voting rights as a shareholder, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. GDR holders may not withdraw the shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitations on withdrawal and voting of the underlying ordinary shares apply with equal force to all shares deposited with the Depositary against the provisional issuance of GDRs prior to the registration of the placement report, whether deposited by us or by the Selling Shareholders with the Depositary at closing against the issuance of GDRs in connection with the offering or otherwise. Such limitation on withdrawal and voting of the underlying ordinary shares will not prohibit trading in the GDRs.

See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders."

USE OF PROCEEDS

The net proceeds that we will receive from the offering, after deducting underwriting commissions, fees and expenses incurred in connection with the offering, will be approximately $352.6 million (assuming the Underwriters do not exercise the Over-allotment Option). We will not receive any of the proceeds from the sale of shares being offered by the Selling Shareholders.

We intend to use approximately 50% of the proceeds from the Offering for acquisitions, including for the consolidation of minority interests in our subsidiaries, 25% of the proceeds for the repayment of indebtedness and the remaining 25% of the proceeds for general corporate purposes, including for the development of new projects and for working capital.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments."

Depending on future events and other changes in the business climate, we may determine at a later time to use the net proceeds for different purposes.

We have agreed with the Underwriters that we will not use the proceeds in the manner described above until the placement report is registered with the FSFM in respect of the newly issued shares of Sitronics we are offering in the form of GDRs. See "Registration of Placement Report."

DIVIDEND POLICY

We do not currently intend to pay any dividends for the next three years. In accordance with our strategy, we expect to reinvest substantially all of our operating cash flows into our business. Moreover, our current dividend policy, adopted by our Board of Directors in December 2005, limits our dividends to no more than 2% of our annual consolidated net profits, as determined under U.S. GAAP, subject to any applicable Russian legal restrictions. Our dividend policy will be adjusted from time to time in accordance with our investment needs.

Dividend payments, if any, must be recommended by our Board of Directors and approved by our shareholders. In particular, dividends may be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- our charter capital has been paid in full;
- the value of our net assets, calculated under Russian accounting standards, is not less, and would not, as a result of the proposed dividend payment, become less than the sum of our charter capital, our reserve fund and the difference between the liquidation value and the par value of our issued and outstanding preferred shares;
- we have repurchased all shares from shareholders having the right to demand repurchase; and
- we are not, and would not become as the result of the proposed dividend payment, insolvent.

For purposes of the above, Russian legislation requires the use of statutory, non-consolidated financial statements of Sitronics prepared under Russian accounting standards, which differ substantially from our U.S. GAAP consolidated financial statements. We estimate that Sitronics' net profits for the nine months ended September 30, 2006, as determined under Russian accounting standards, were 56.0 million rubles (the equivalent of approximately $2.1 million).

Dividends, if declared, are payable to our shareholders within 60 days of the declaration unless a shorter time period is set forth by the shareholders' decision declaring the dividends. Dividends not claimed within three years of the date of payment lapse and accrue to us. For a further description, please refer to "Description of Share Capital and Certain Requirements of Russian Legislation—Description of Share Capital—Dividends."

We anticipate that dividends, if any, will be paid in rubles. The Depositary as our shareholder will receive rubles and convert the rubles into U.S. dollars for distribution to GDR holders. Accordingly, the value of dividends received by GDR holders will be subject to fluctuations in the exchange rate between the ruble and the U.S. dollar. The Depositary may also deduct a fee of $0.02 or less per GDR and other fees and expenses from the dividend distribution. See "Description of the Global Depositary Receipts—Fees and Charges." In addition, our dividend payments to the Depositary will be subject to applicable Russian withholding taxes. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid to the Depositary" and "Taxation—Russian Federation Tax Considerations—Taxation of Dividends."

Some of our subsidiaries have dividend policies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital requirements—Dividends."

CAPITALIZATION

The following table sets forth our capitalization at September 30, 2006, on a historical basis and as adjusted to give effect to the issuance of 1,549,839,200 shares in the offering. You should read this table together with our consolidated financial statements included elsewhere in this prospectus.

	At September 30, 2006	
	Historical	As Adjusted
	(in thousands of U.S. dollars)	
Short-term loans and notes payable	122,854	122,854
Current portion of long-term debt	130,176	130,176
Total short-term debt	253,030	253,030
Long-term debt, less amounts maturing within one year	209,609	209,609
Capital lease obligations, net of current portion	3,225	3,225
Shareholders' equity:		
Share capital[(1)]	227,948	286,313
Additional paid-in capital	99,375	393,646
Retained earnings	62,248	62,248
Accumulated other comprehensive income	11,525	11,525
Total shareholders' equity	401,096	753,732
Total capitalization	866,960	1,219,596

(1) Using an exchange rate of 26.55 rubles per U.S. dollar in relation to the newly issued shares.

SELECTED FINANCIAL DATA

The financial data set forth below as of December 31, 2003, 2004 and 2005, and for the years then ended have been derived from our audited consolidated financial statements. The financial data set forth below as of September 30, 2006, and for the nine months ended September 30, 2005 and 2006 have been derived from our unaudited interim consolidated financial statements. Our reporting currency is the U.S. dollar and we prepare our consolidated financial statements in accordance with U.S. GAAP. The unaudited interim consolidated financial statements reflect all normal and recurring adjustments that are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Results of operations for the nine months ended September 30, 2006 are not necessarily indicative of results for the full year ended December 31, 2006, for any other interim period or for any future fiscal year. The financial data below should be read in conjunction with our consolidated financial statements included elsewhere in this prospectus.

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	(in thousands of U.S. dollars, except per share data and numbers of shares)				
Consolidated statements of operations data					
Revenue	99,055	473,592	952,569	634,208	1,049,790
Cost of sales, exclusive of depreciation and amortization shown separately below	(55,774)	(397,263)	(715,634)	(455,395)	(802,258)
Research and development expenses	(7,828)	(9,246)	(23,644)	(11,901)	(27,314)
Selling, general and administrative expenses	(19,831)	(33,873)	(54,755)	(35,469)	(102,545)
Depreciation and amortization	(3,568)	(6,491)	(11,476)	(7,735)	(35,251)
Other operating expenses, net	(1,997)	(652)	(4,819)	(1,452)	(2,929)
Operating income	10,057	26,067	142,241	122,256	79,493
Interest income	—	197	872	529	5,056
Interest expense, net of amounts capitalized	(2,772)	(7,120)	(9,810)	(7,432)	(22,779)
Foreign currency transactions gain/(loss)	1,404	233	(2,914)	(2,247)	940
Income before income tax and minority interests	8,689	19,377	130,389	113,106	62,710
Income tax expense	(2,926)	(3,234)	(35,147)	(29,173)	(23,391)
Minority interests	(740)	(4,793)	(26,015)	(24,690)	(2,321)
Net income	5,023	11,350	69,227	59,243	36,998
Translation adjustment, net of minority interests of $53, $768, ($380), ($380) and $972, respectively, and income tax effect of nil	1,761	1,013	(3,788)	(1,145)	12,539
Comprehensive income	6,784	12,363	65,439	58,098	49,537
Weighted average number of common shares outstanding	1,886,771,000	1,886,771,000	1,886,771,000	1,886,771,000	5,912,372,903
Earnings per share, basic and diluted	0.003	0.006	0.037	0.031	0.006

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	(in thousands of U.S. dollars)				
Revenues by segment[(1)]					
Telecommunication Solutions	50,457	87,777	246,639	194,650	503,907
IT Solutions	—	293,523	468,404	312,912	349,023
Microelectronic Solutions	40,826	52,053	56,952	38,444	78,131
Consumer Electronics	3,363	30,909	124,038	42,625	88,172
Electronics Manufacturing Services	4,676	21,352	57,174	45,818	34,374
Corporate	91	270	65	281	62
Eliminations	(358)	(12,292)	(703)	(522)	(3,879)
Total	99,055	473,592	952,569	634,208	1,049,790
Operating income by segment					
Telecommunication Solutions	10,060	13,344	132,049	112,297	75,221
IT Solutions	—	(829)	6,469	5,947	4,878
Microelectronic Solutions	4,183	11,560	3,622	2,932	14,394
Consumer Electronics	(3,059)	2,372	1,921	1,351	(4,751)
Electronics Manufacturing Services	(408)	193	(1,678)	(813)	(6,997)
Corporate	(719)	(573)	(142)	542	(3,252)
Total	10,057	26,067	142,241	122,256	79,493
Consolidated balance sheet data (at period end)					
Total assets	124,581	301,043	566,090	481,850	1,588,133
Shareholders' equity	23,612	65,112	162,819	154,881	401,096
Long-term debt, net of current portion	23,943	7,954	6,125	5,016	209,609
Consolidated cash flows data					
Net cash (used in)/provided by operating activities	(7,081)	(2,995)	58,605	(22,813)	(100,729)
Net cash (used in)/provided by investing activities	(7,706)	12,086	(69,795)	(26,860)	(117,146)
of which capital expenditures[(2)]	(5,618)	(7,103)	(47,394)	(20,483)	(63,271)
Net cash provided by financing activities	17,258	25,233	56,716	43,316	313,504
Non-U.S. GAAP measures[(3)]					
Consolidated OIBDA	13,625	32,558	153,717	129,991	114,744
Telecommunication Solutions OIBDA	10,646	15,137	135,215	114,184	103,420
IT Solutions OIBDA	—	1,825	11,558	9,674	8,803
Microelectronic Solutions OIBDA	6,619	13,048	5,586	4,255	16,049
Consumer Electronics OIBDA	(3,025)	2,401	1,922	1,351	(4,637)
Electronics Manufacturing Services OIBDA	104	623	(642)	(152)	(5,768)

(1) Segment revenues include intersegment sales.

(2) Represents the aggregate of purchases of property, plant and equipment and of intangible assets.

(3) OIBDA represents operating income plus depreciation and amortization. We present OIBDA because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. We also present OIBDA by segment because our overall performance is best explained with reference to results of each segment.

OIBDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our operating results as reported under U.S. GAAP. Some of these limitations are as follows:

- OIBDA does not reflect the impact of financing costs, which are significant and could further increase if we incur more debt, on our operating performance.
- OIBDA does not reflect the impact of income taxes on our operating performance.
- OIBDA does not reflect the impact of depreciation and amortization on our operating performance. The assets of our businesses which are being depreciated and/or amortized will have to be replaced in the future and such depreciation and amortization expense may approximate the cost to replace these assets in the future. By excluding such expense from OIBDA, OIBDA does not reflect our future cash requirements for such replacements.
- Other companies in our industry may calculate OIBDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure.

We compensate for these limitations by relying primarily on our U.S. GAAP operating results and using OIBDA only supplementally. See our consolidated statements of operations and statements of cash flows included elsewhere in this prospectus.

OIBDA is a measure of our operating performance that is not required by, or presented in accordance with, U.S. GAAP. OIBDA is not a measurement of our operating performance under U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, OIBDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

Reconciliation of OIBDA to operating income is as follows for the periods indicated:

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	(in thousands of U.S. dollars)				
Consolidated OIBDA reconciliation					
Operating income	10,057	26,067	142,241	122,256	79,493
Depreciation and amortization	3,568	6,491	11,476	7,735	35,251
Consolidated OIBDA	13,625	32,558	153,717	129,991	114,744
Telecommunication Solutions OIBDA reconciliation					
Operating income	10,060	13,344	132,049	112,297	75,221
Depreciation and amortization	586	1,793	3,166	1,887	28,199
Telecommunication Solutions OIBDA	10,646	15,137	135,215	114,184	103,420
IT Solutions OIBDA reconciliation					
Operating income	—	(829)	6,469	5,947	4,878
Depreciation and amortization	—	2,654	5,089	3,727	3,925
IT Solutions OIBDA	—	1,825	11,558	9,674	8,803
Microelectronic Solutions OIBDA reconciliation					
Operating income	4,183	11,560	3,622	2,932	14,394
Depreciation and amortization	2,436	1,488	1,964	1,323	1,655
Microelectronic Solutions OIBDA	6,619	13,048	5,586	4,255	16,049
Consumer Electronics OIBDA reconciliation					
Operating income	(3,059)	2,372	1,921	1,351	(4,751)
Depreciation and amortization	34	29	1	—	114
Consumer Electronics OIBDA	(3,025)	2,401	1,922	1,351	(4,637)
Electronics Manufacturing Services OIBDA reconciliation					
Operating income	(408)	193	(1,678)	(813)	(6,997)
Depreciation and amortization	512	430	1,036	661	1,229
Electronics Manufacturing Services OIBDA	104	623	(642)	(152)	(5,768)

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated income statement for the year ended December 31, 2005 is presented to give effect to the acquisition of 51.0% of the outstanding voting interest of Intracom Telecom S.A., or Intracom, completed on June 30, 2006, as if it had been consummated on January 1, 2005. This pro forma information has been prepared on the basis of financial statements prepared under U.S. GAAP.

We believe the assumptions used to prepare the unaudited pro forma condensed consolidated income statement provide a reasonable basis for presenting the significant effects directly attributable to the acquisition of Intracom. The unaudited pro forma condensed consolidated income statement does not purport to represent what our results of operations would actually have been if the acquisition of Intracom had in fact occurred on January 1, 2005, or to project our results of operations for any future period or date.

The unaudited pro forma condensed consolidated income statement is being furnished solely for informational purposes and is not necessarily indicative of the consolidated results of operations that might have been achieved for the period indicated, nor is it necessarily indicative of our future results. For example, the pro forma information does not reflect cost savings that we expect to realize from operational synergies, as these expected cost savings and operational synergies may not be realized, and does not reflect integration costs, in each case, for the periods presented.

The unaudited pro forma condensed consolidated income statement should be read in conjunction with our audited consolidated financial statements and Intracom's audited consolidated financial statements.

	Unaudited pro forma condensed consolidated income statement Year ended December 31, 2005				
	Sitronics[1]	Intracom[2]	Pro forma adjustments	Notes	Pro forma
	(in thousands of U.S. dollars, except per share data and number of shares)				
Revenues	952,569	346,638	—		1,299,207
Cost of sales, exclusive of depreciation and amortization shown separately below	(715,634)	(246,822)	—		(962,456)
Research and development expenses	(23,644)	(18,122)	—		(41,766)
Selling, general and administrative expenses	(54,755)	(58,961)	—		(113,716)
Depreciation and amortization	(11,476)	(25,050)	(3,933)	(3)	(40,459)
Other operating (expenses)/income, net	(4,819)	563	—		(4,256)
Operating income	142,241	(1,754)	(3,933)		136,554
Interest expense, net of interest income and amounts capitalized	(8,938)	(12,932)	(11,972)	(4)	(33,842)
Foreign currency transactions (loss)/gain	(2,914)	6,558	—		3,644
Income before income tax and minority interests	130,389	(8,128)	(15,905)		106,356
Income tax (expense)/benefit	(35,147)	3,923	3,556	(5)	(27,668)
Minority interests	(26,015)	(117)	2,060	(6)	(24,072)
Net income	69,227	(4,322)	(10,289)		54,616
Earnings per share, basic and diluted	0.037	—	—		0.030
Weighted average number of shares outstanding	1,886,771,000	—	—		1,886,771,000

NOTES

(1) Sitronics historical financial data is derived from our audited consolidated financial statements for the year ended December 31, 2005, included elsewhere in this prospectus.

(2) Intracom Telecom historical financial data is derived from its audited combined and consolidated financial statements for the year ended December 31, 2005, included elsewhere in this prospectus, and translated into USD, at the average EUR/USD exchange rate for that year.

(3) Adjustment relates to the difference between the fair value of Intracom's tangible and intangible assets acquired and their book value at the date of the acquisition and the related depreciation and amortization expense. For the purpose of the presentation of the above unaudited pro forma condensed consolidated financial information, the allocation of the purchase price to tangible and intangible assets was performed based on a preliminary purchase price allocation. We are currently undertaking a study to determine the final allocation of the purchase price to tangible and intangible assets, and as a result of the final allocation, the reported values and/or useful lives of certain tangible and intangible assets may change, which will result in a change of the related depreciation expense. See note 3 to our interim consolidated financial statements.

(4) Adjustment represents the additional interest expense related to debt incurred by us to effect the acquisition of 51.0% of the shares of Intracom Telecom.

(5) Adjustment represents the deferred income tax benefit, related to the amortization of acquired tangible and intangible assets and the additional interest expense related to debt incurred by us to effect the acquisition.

(6) Adjustment represents the minority interest, related to 49.0% of the shares of Intracom Telecom for the year ended December 31, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements, including the notes thereto, and other information included elsewhere in this prospectus. This section contains forward-looking statements that involve risk and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements."

Overview

We are a leading provider of telecommunication solutions, including software, equipment and systems integration, IT solutions and microelectronic solutions in Russia and the CIS. With the recent acquisition of Intracom Telecom in Greece, we have a strong presence in Eastern Europe and a growing presence in the Middle East and Africa.

We operate through the following five business divisions:

- **Telecommunication Solutions** develops and manufactures equipment for telecommunication networks, develops software programs to manage the delivery of telecommunication services by operators and provides integration services. This division is comprised of two units, Strom Telecom based in Prague, the Czech Republic and Intracom Telecom based in Athens, Greece.
- **IT Solutions** is a leading provider of systems integration and IT related services and a leading distributor of computer components and software in the CIS. This division is comprised of Kvazar-Micro based in Kiev, Ukraine.
- **Microelectronic Solutions** is Russia's leading domestic manufacturer and exporter of integrated circuits ("ICs") and smart cards with advanced IC fabrication technology. This division is mainly comprised of Mikron based in Zelenograd, Russia.
- **Consumer Electronics** offers audio-video products and portable electronics devices through a distribution network of 170 dealers across Russia and Ukraine under the "Sitronics" brand and other brands.
- **Electronics Manufacturing Services** provides electronics manufacturing services primarily to multinational companies that operate in the CIS. The division includes three integrated production facilities in Zelenograd, Russia.

The following tables set forth our revenues and operating income for the year ended December 31, 2005 and for the nine months ended September 30, 2006 by segment.

Revenues by segment	Year ended December 31		Nine months ended September 30	
	2005	% of revenues	2006	% of revenues
	(in thousands of U.S. dollars, except percentages)			
Telecommunication Solutions	246,639	25.9%	503,907	48.0%
IT Solutions	468,404	49.2%	349,023	33.2%
Microelectronic Solutions	56,952	6.0%	78,131	7.4%
Consumer Electronics	124,038	13.0%	88,172	8.4%
Electronics Manufacturing Services	57,174	6.0%	34,374	3.3%
Corporate	65	0.0%	62	0.0%
Eliminations	(703)	(0.1)%	(3,879)	(0.4)%
Total	952,569	100.0%	1,049,790	100.0%

Operating income by segment	Year ended December 31		Nine months ended September 30	
	2005	% of operating income	2006	% of operating income
	(in thousands of U.S. dollars, except percentages)			
Telecommunication Solutions	132,049	92.8%	75,221	94.6%
IT Solutions	6,469	4.5%	4,878	6.1%
Microelectronic Solutions	3,622	2.5%	14,394	18.1%
Consumer Electronics	1,921	1.4%	(4,751)	(6.0)%
Electronics Manufacturing Services	(1,678)	(1.2)%	(6,997)	(8.8)%
Corporate	(142)	(0.1)%	(3,252)	(4.1)%
Total	142,241	100.0%	79,493	100.0%

Operating Segments

Our segments are constituted on the basis of the grouping of our significant operating entities as follows:

Segment	Entity	Jurisdiction	Effective ownership Interest
Telecommunication Solutions	Intracom Telecom	Greece	51%
	Intrarom	Romania	34%
	Strom Telecom	Czech Republic	100%
	Tesla tech	Czech Republic	100%
	Sitronics Telecom Solutions	Russia	100%
IT Solutions	Kvazar-Micro Corporation	Netherlands	51%
	Kvazar-Micro International	England	51%
	Kvazar-Micro Tekhno	Ukraine	51%
	Kvazar-Micro.ru	Russia	51%
Microelectronic Solutions	Mikron	Russia	77%
	VZPP-Mikron	Russia	97%
	Smart Cards	Russia	65%
Consumer Electronics	Sitronics Consumer Electronics	Russia	100%
	Sitronics Ukraine	Ukraine	100%
Electronics Manufacturing Services	Kvant	Russia	78%
	Elaks	Russia	84%
	Elion	Russia	75%
	Concel	Russia	100%

The operations of our parent company are reflected in a separate segment called “Corporate.” The parent company charges each segment for general corporate services, including arranging for debt financing, providing guarantees, market research and general marketing activities.

The amounts recorded as intersegment revenues and expenses were insignificant for the periods under review, except for the following:

- In the year ended December 31, 2004 our Microelectronic Solutions segment supplied non-packaged IC’s for $4.9 million to the Telecommunication Solutions segment. The IC’s were used in assembling MEDIO equipment.
- In the years ended December 31, 2004 and in the nine months ended September 30, 2006, our Consumer Electronics segment purchased consumer electronic devices for $7.1 million and $2.4 million, respectively, from our Electronics Manufacturing Services segment.

Acquisitions

During the periods under review, we have completed three significant acquisitions.

Kvazar-Micro

In July 2004, Sistema acquired a 51% interest in Kvazar-Micro for a cash consideration of $28.0 million, including a contribution of $18.0 million to the share capital of Kvazar-Micro. Through the acquisition of Kvazar-Micro, we added the IT Solutions segment to our business. In accordance with our acquisition accounting policy, the revenues and expenses of Kvazar-Micro have been included in our consolidated financial statements from January 1, 2004, with earnings for the period from January 1, 2004 to the date of acquisition by Sistema included in minority interest in the statement of operations.

As part of Sistema's reorganization of its technology business segment by consolidating the ownership of the segment's entities under Sitronics, we acquired the 51% interest in Kvazar-Micro from Sistema in October 2005 for $22.6 million in cash. The consideration paid to Sistema was recorded in our consolidated financial statements as a decrease in additional paid-in capital. Despite Sistema's ownership of Kvazar-Micro between 2004 and 2005, Kvazar-Micro's operations have been consolidated in our financial statements from the date of the acquisition by Sistema.

Kvant

In May 2005, we acquired an additional 53% interest in Kvant, a manufacturer of consumer electronics devices located in Zelenograd, for a total consideration of $7.2 million, increasing our voting power in Kvant to 88%. As a result, we obtained control over Kvant's operations. In connection with this acquisition, a legal dispute with another shareholder of Kvant over certain issues relating to the control of the company and the size of our ownership interest was settled and the bankruptcy proceedings in relation to Kvant were terminated.

Intracom Telecom

In June 2006, we acquired a 51% interest in Intracom Telecom for €120.0 million (equivalent of $150.6 million) from Intracom Holdings S.A., of which €85.0 million (equivalent of $106.7 million) was paid in cash in June 2006 and the remaining amount of €35.0 million (equivalent of $44.4 million as of September 30, 2006) is currently held in escrow. In accordance with our acquisition accounting policy, the revenues and expenses of Intracom Telecom have been included in our consolidated financial statements from January 1, 2006, with earnings for the period from January 1, 2006 to the date of acquisition included in minority interest in the statement of operations.

The acquisition agreement provides for an independent verification of Intracom Telecom's net assets value as of the acquisition date and has certain provisions relating to the transfer of contracts from Intracom Holdings to Intracom Telecom. The amount due (in any case not higher than €30.0 million) will be finalized and become payable upon completion of such independent verification. In addition, following the completion of the independent verification procedure, we undertook to substitute existing corporate guarantees with new corporate guarantees provided by us, which shall be pro rata to our interest in Intracom Telecom.

Prior to the acquisition, Intracom Holdings transferred by virtue of a spin-off contract to Intracom Telecom, a separate legal entity in which Intracom Holdings held a 100% interest, all assets and liabilities of its telecommunications business which operated as one of Intracom Holdings' divisions. This was done in order to effectuate a spin-off of Intracom Holdings' telecommunications business under the Greek law. The spin-off procedure requires that counterparties to all Intracom Holdings contracts consent to the transfer of the rights and obligations under such contracts from Intracom Holdings to Intracom Telecom. We have already obtained such consent with respect to a number of contracts and are in the process of obtaining such consent with respect to other contracts. However, we cannot assure you that such consent with respect to all our contracts will be obtained in a timely fashion or at all.

Following the spin-off, Intracom Telecom became the sole legal and beneficial owner of the trade name "Intracom Telecom." In addition, Intracom Holdings granted Intracom Telecom the right to use the name "Intracom" indefinitely regardless of its future participation in Intracom Telecom as well as other trademarks previously used by the telecommunications division of Intracom Holdings.

We also, as part of the same transaction, entered into a shareholders' agreement with Intracom Holdings which includes a put option for the benefit of Intracom Holdings granting it the right to require us to purchase the remaining 49% interest in Intracom Telecom, subject to certain conditions.

The exercise period of the put option is 36 months and it commences on the date falling 24 months after the acquisition date. The agreement provides that the purchase price will be agreed upon by the parties or, failing which, will be determined by an independent appraiser on the basis of fair market value. In addition, both parties undertook not to sell their interest in Intracom Telecom for a period of five years. Upon the expiration of the lock-up period and during the term of the agreement, each party retains the right of first refusal with respect to the shares owned by the other party.

Under the shareholders' agreement, the Intracom Telecom's Board of Directors shall consist of 11 members, out of which currently six are nominated by us and five are nominated by Intracom Holdings. In addition, as long as Intracom Holdings owns a 49% interest in Intracom Telecom, the Board will need the affirmative vote of at least nine members to decide upon (1) Intracom Telecom's strategic and business plans, (2) any relocation outside of Greece of company's activities, other than the production activities and (3) any significant acquisitions of other companies. The Chairman of the Board shall be one of our nominees to the board and the Vice Chairman shall be one of the Intracom Holdings' nominees.

The shareholders' agreement terminates upon the occurrence of certain events, including either Sitronics or Intracom Telecom ceasing to own at least 10% of the share capital of Intracom Telecom and upon the completion of the sale of Intracom Holdings' 49% interest in Intracom Telecom to Sitronics pursuant to the put option.

We continue to maintain an extensive partnership with Intracom Holdings following our acquisition of Intracom Telecom. Prior to the acquisition, Intracom Telecom and Intracom Holdings shared certain corporate and administrative functions, including legal, information technology and accounting. Since the acquisition, we have continued to rely on Intracom Holdings to provide us with some of these services. By the end of 2007, we intend to internalize most of the corporate functions we share with Intracom Holdings. However, we will continue to share certain services (*e.g.*, information technology) with Intracom Holdings if such cooperation would be beneficial to us. We also lease certain real estate properties to Intracom Holdings as well as rent certain properties from Intracom Holdings. These agreements have been negotiated at arm's-length and we anticipate to maintain similar relationships in the future. Furthermore, as part of our partnership, we jointly participate in tenders for contracts and implementation of various ongoing projects.

Intracom Telecom's historical financial information included in this prospectus may not necessarily reflect what its results of operations, financial condition and cash flows would have been had Intracom Telecom been a separate independent entity pursuing its own strategies during the periods presented. As a result, the absence of Intracom Telecom's operating history as a separate entity and its integrated operations with Intracom Holdings and its affiliates, makes evaluating its business and our future financial prospects difficult. Furthermore, Intracom Telecom's cost structure following the acquisition might not be comparable to the cost structure that it experienced in prior periods and might not be comparable to the cost structure that we have estimated for the purposes of its consolidated financial statements and pro forma financial statements included in this prospectus.

Recent Developments

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

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

In December 2006, we acquired 7.6% of Mikron ordinary shares from Waltermore Ltd. for approximately $7.3 million, thus increasing our interest in Mikron from 78% to 86%.

In December 2006, we received a prepayment of 274.6 million rubles (or approximately $10 million) from the Russian Federation Agency for Management of Federal Property for 9.88% of Mikron ordinary shares that were issued to the Agency in January 2007.

In December 2006, we acquired 45.7% of the shares of VZPP-Mikron for $4.5 million, thus increasing our interest in VZPP-Mikron from 51% to 97%.

In January 2007, Sitronics Management LLC acquired 188,683,000 shares (representing 2.36% of our shares) from NED Electronic GmbH. The purchase price of $36.0 million will be paid within 30 days of the signing of the agreement. These shares will be used by us for financing of our future acquisitions and other transactions.

We currently own a 51% interest in Kvazar-Micro, the subsidiary comprising our IT Solutions division. We intend to acquire the remaining 49% interest in Kvazar-Micro, which is owned by Melrose Holding Company. Melrose Holding Company is beneficially owned by a group of former and current managers of Kvazar-Micro. Mr. Evgeni Utkin, our President, beneficially owns a majority interest in Melrose Holding Company. Mr. Vladimir Yasinsky, our First Vice President and Chief Operating Officer, and Mr. Maxim Ageev, the head of our IT Solutions division and President of Kvazar-Micro, also beneficially own an interest in Melrose Holding Company. The proposed acquisition will be approved in accordance with all requirements of Russian law. In connection with such approval process, the purchase price for the interest held by Melrose Holding Company will be determined in conjunction with the advice of an international investment bank or appraiser. Although we intend to follow applicable Russian law requirements in connection with the proposed acquisition of such interest in Kvazar-Micro, we cannot guarantee that such approvals will be forthcoming to enable us to complete such purchase.

Revenues

The following table presents revenues of our segments, including intersegment revenues, by major product categories.

	Years ended December 31						Nine months ended September 30			
Revenues	**2003**	**% of total**	**2004**	**% of total**	**2005**	**% of total**	**2005**	**% of total**	**2006**	**% of total**
	(in thousands of U.S. dollars, except percentages)									
Telecommunication Solutions										
Network solutions	37,174	73.7%	58,165	66.3%	153,265	62.1%	108,361	55.7%	284,753	56.5%
BSS/OSS	13,283	26.3%	29,612	33.7%	92,398	37.5%	85,444	43.9%	100,881	20.0%
Access/Transmission	—	—%	—	—%	—	—%	—	—%	34,173	6.8%
Outsourcing	—	—%	—	—%	976	0.4%	845	0.4%	84,100	16.7%
Total	50,457	100.0%	87,777	100.0%	246,639	100.0%	194,650	100.0%	503,907	100.0%
IT Solutions										
Systems integration	—	—%	33,297	11.3%	93,911	20.0%	60,128	19.2%	63,115	18.1%
Distribution of hardware and software	—	—%	260,226	88.7%	374,493	80.0%	252,784	80.8%	285,908	81.9%
Total	—	—%	293,523	100.0%	468,404	100.0%	312,912	100.0%	349,023	100.0%
Microelectronic Solutions										
Microelectronic components	40,826	100.0%	52,053	100.0%	56,952	100.0%	38,444	100.0%	51,590	66.0%
Smart cards	—	—%	—	—%	—	—%	—	—%	26,541	34.0%
Total	40,826	100.0%	52,053	100.0%	56,952	100.0%	38,444	100.0%	78,131	100.0%
Consumer Electronics										
CRT televisions	2,995	89.1%	10,147	32.8%	22,843	18.4%	13,165	30.9%	14,896	16.9%
Mobile phones	—	—%	—	—%	—	—%	—	—%	7,883	8.9%
Consumer devices	—	—%	1,145	3.7%	1,741	1.4%	1,317	3.1%	896	1.0%
DVD	—	—%	1,252	4.1%	2,273	1.8%	1,588	3.7%	2,632	3.0%
LCD (PDP) panels	—	—%	470	1.5%	11,760	9.5%	1,023	2.4%	4,878	5.5%
Portable	—	—%	84	0.3%	35	0.0%	35	0.1%	1,338	1.5%
Other	303	9.0%	1,119	3.6%	281	0.2%	234	0.5%	138	0.2%
Non-Sitronics brands	65	1.9%	16,692	54.0%	85,105	68.6%	25,263	59.3%	55,511	63.0%
Total	3,363	100.0%	30,909	100.0%	124,038	100.0%	42,625	100.0%	88,172	100.0%
EMS Services	4,676	100.0%	21,352	100.0%	57,174	100.0%	45,818	100.0%	34,374	100.0%

Telecommunication Solutions segment

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

If the services element of the arrangement is deemed essential to the functionality of the software arrangement, the accounting for performance of construction-type contracts is applied, provided that the following conditions are met: (1) 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; (2) the buyer can be expected to satisfy its obligations under the contract; and (3) we expect to perform our contractual obligations.

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.

IT 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: (1) the delivered items have value to the customer on a standalone basis; (2) there is objective and reliable evidence of the fair value of the undelivered items; and (3) 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 our control.

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, equal amounts of revenue and costs are recognized until results can be estimated more precisely. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

Microelectronic Solutions, Consumer Electronics and Electronics Manufacturing Services segments

The products of these segments are generally sold with a limited warranty of product quality. The product return reserves, warranty and other post-contract support obligations are accrued at the time of sale based upon historical experience and our estimate of the level of future claims.

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

Sales to the Sistema group

Sales to the Sistema group constitute a significant portion of our revenues, and are expected to continue to be significant in the next few years. The following table sets out the sales to the Sistema group by each segment.

Revenues	Year ended December 31 2005	% of segment revenues	Nine months ended September 30 2005	% of segment revenues	2006	% of segment revenues
	(in thousands of U.S. dollars, except percentages)					
Telecommunication Solutions	246,592		194,610		503,907	
Sales to Sistema group	227,972	92.4%	183,957	94.5%	180,578	35.8%
Sales to third parties	18,620	7.6%	10,653	5.5%	323,329	64.2%
IT Solutions	468,404		312,912		347,678	
Sales to Sistema group	68,722	14.7%	45,289	14.5%	41,047	11.8%
Sales to third parties	399,682	85.3%	267,623	85.5%	306,631	88.2%
Microelectronic Solutions	56,937		38,444		77,970	
Sales to Sistema group	—	—%	—	—%	22,097	28.3%
Sales to third parties	56,937	100.0%	38,444	100.0%	55,873	71.7%
Consumer Electronics	124,038		42,575		88,172	
Sales to Sistema group	13,334	10.7%	10,981	25.8%	2,819	3.2%
Sales to third parties	110,704	89.3%	31,594	74.2%	85,353	96.8%
Electronics Manufacturing Services	56,533		45,386		32,001	
Sales to Sistema group	18	0.0%	101	0.2%	—	—%
Sales to third parties	56,515	100.0%	45,285	99.8%	32,001	100.0%
Corporate	65		281		62	
Total	952,569		634,208		1,049,790	
Sales to Sistema group	310,046	32.5%	240,328	37.9%	246,541	23.5%
Sales to third parties	642,523	67.5%	393,880	62.1%	803,249	76.5%

Telecommunication Solutions

For the periods under review, we have been a major supplier of telecommunication solutions to the Sistema group. Sales to Sistema's subsidiaries amounted to 92.4% and 35.8% of revenues of our Telecommunication Solutions segment for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. The significant decrease in the percentage of revenues attributed to Sistema was due to the acquisition of Intracom Telecom. The Telecommunication Solutions segment has contributed 92.8% and 94.6%, respectively, of our consolidated operating income for these periods.

We have entered into agreements with the telecommunication services providers within the Sistema group such as MTS, UMC, Comstar UTS, MGTS and MTT (including through leasing arrangements with Invest-Svyaz-Holding) for, among other things, implementation of BSS/OSS and sales of telecommunication equipment.

In particular, our revenues from sales of software, equipment and related services to MTS and its affiliate MTS Belarus amounted to $149.7 million and $146.4 million during the nine months ended September 30, 2005 and 2006, respectively.

In addition, four customers of Intracom Telecom accounted for revenues of $106.4 million in the nine months ended September 30, 2006, which is 10.1% of our consolidated revenues for this period.

IT Solutions

Our IT Solutions segment provides Sistema's subsidiaries and affiliates, including MTS, Comstar UTS and SkyLink, business consulting and IT consulting services, customization and implementation of ERP solutions, program integration (databases, analytic systems, etc.), telecommunication integration (data transfer networks, call centers, contact centers, etc.) and other services.

Microelectronic Solutions

Our Microelectronic Solutions segment sells smart cards to MTS.

Consumer Electronics

We supply GSM/CDMA standard mobile phones and related products to SkyLink and MTS.

Seasonality

Telecommunication Solutions and IT Solutions

Historically the second half of the year generates revenues approximately 40-50% greater than in the first half of the year. The main reasons for this seasonality are that our customers tend to spend a larger part of their budgets and order deliveries during the second half of the year and, in relation to our governmental customers, governmental budgets are funded in December and/or governmental authorities prefer to spend remaining budgeted amounts prior to year end since budgeted amounts cannot be transferred to the next fiscal year.

Consumer Electronics

With respect to audio/video products, sales generally increase from the summer until the end of December, and then drop steeply in January. With respect to mobile phones and portable appliances, the months of May and June are relatively better months and sales increase from October through December, with a steep drop in January.

Microelectronic Solutions

Sales generally increase in the fourth quarter and then drop in January and February. With respect to export sales such seasonality is explained by the Lunar New Year holidays in Southeast Asia in February; with respect to domestic sales to governmental customers the main reason is that governmental authorities prefer to spend remaining budgeted amounts prior to year end since budgeted amounts cannot be transferred to the next fiscal year.

Electronics Manufacturing Services

The fourth quarter is relatively better than others, in line with the seasonality of sales of the clients of the segment.

Restatement

Subsequent to the issuance of our 2005 financial statements in June 2006, we identified the following errors in application of generally accepted accounting principles that occurred in the years ended December 31, 2003, 2004 and 2005:

- We recognized revenues from Strom Telecom's software sales to Sistema subsidiaries under requirements of SOP 97-2, "Software Revenue Recognition" based on the management's estimate that our software supplied to Sistema subsidiaries does not require significant customization subsequent to delivery. In 2006, we reviewed the implementation process for such software and concluded that the required customization in certain instances was significant and that revenue on such arrangements should be recognized in accordance with SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts."
- In the year ended December 31, 2005, we did not consolidate accounts of Cosmos Wealth, a variable interest entity, of which we were a primary beneficiary. In 2006, we concluded that accounts of Cosmos Wealth should have been consolidated in our financial statements for the year ended December 31, 2005.
- Certain misclassifications occurred.

In addition, in our previously issued financial statements for the year ended December 31, 2005 we combined the accounts of Videofon MV, a subsidiary of Sistema. Videofon MV at that time was considered by Sistema to be a part of its Technology business segment, was managed by us and contemplated for transfer to Sitronics in 2006. In 2006, Sistema reconsidered its strategy for the development of Videofon MV and decided to exclude Videofon MV from Sitronics. The accounts of

Videofon MV have been excluded from our financial statements for the year ended December 31, 2005.

Results of Operations

The following table sets forth a summary of our financial results for the three years ended December 31, 2003, 2004, 2005 and for the nine months ended September 30, 2005 and 2006.

Results of operations	Years ended December 31			Nine months ended September 30	
	2003	2004	2005	2005	2006
	(in thousands of U.S. dollars)				
Revenues	99,055	473,592	952,569	634,208	1,049,790
Cost of sales, exclusive of depreciation and amortization	(55,774)	(397,263)	(715,634)	(455,395)	(802,258)
Research and development expenses	(7,828)	(9,246)	(23,644)	(11,901)	(27,314)
Selling, general and administrative expenses	(19,831)	(33,873)	(54,755)	(35,469)	(102,545)
Depreciation and amortization	(3,568)	(6,491)	(11,476)	(7,735)	(35,251)
Other operating expenses, net	(1,997)	(652)	(4,819)	(1,452)	(2,929)
Operating income	10,057	26,067	142,241	122,256	79,493
Interest income	—	197	872	529	5,056
Interest expense, net of amounts capitalized	(2,772)	(7,120)	(9,810)	(7,432)	(22,779)
Foreign currency transactions gain/(loss)	1,404	233	(2,914)	(2,247)	940
Income tax expense	(2,926)	(3,234)	(35,147)	(29,173)	(23,391)
Income before minority interests	5,763	16,143	95,242	83,933	39,319
Minority interests	(740)	(4,793)	(26,015)	(24,690)	(2,321)
Net income	5,023	11,350	69,227	59,243	36,998

Nine months ended September 30, 2005 compared to nine months ended September 30, 2006

Revenues

Consolidated revenues increased by $415.6 million, or 65.5%, from $634.2 million for the nine months ended September 30, 2005 to $1,049.8 million for the nine months ended September 30, 2006. The following table sets forth revenues by segment, including as a percentage of total revenues.

Revenues by segment	Nine months ended September 30			
	2005	% of total	2006	% of total
	(in thousands of U.S. dollars, except percentages)			
Telecommunication Solutions	194,650	30.7%	503,907	48.0%
IT Solutions	312,912	49.3%	349,023	33.2%
Microelectronic Solutions	38,444	6.1%	78,131	7.4%
Consumer Electronics	42,625	6.7%	88,172	8.4%
Electronics Manufacturing Services	45,818	7.2%	34,374	3.3%
Corporate	281	0.0%	62	0.0%
Eliminations	(522)	(0.1)%	(3,879)	(0.4)%
Total	634,208	100.0%	1,049,790	100.0%

Telecommunication Solutions

The revenues of the Telecommunications Solutions segment increased by $309.3 million, or 158.9%, from $194.7 million for the nine months ended September 30, 2005 to $503.9 million for the nine months ended September 30, 2006. Acquisition of Intracom Telecom contributed $306.2 million to the segment revenues for the nine months ended September 30, 2006. Intracom Telecom revenues for this period were primarily derived from contracts with its significant existing customers, including OTE group, Intralot, ITC, OPAP SA and others.

Revenues of Strom Telecom (together with Sitronics Telecom Solutions) increased by $3.1 million, or 1.6%, from $194.7 million for the nine months ended September 30, 2005 to $197.7 million for the nine months ended September 30, 2006. The increase was primarily due to an increase in revenues from sale of network solutions to MTS and MGTS. In the nine months ended September 30, 2005, Strom Telecom installed FORIS, our OSS/BSS product line, in several regional offices of MTS and there was a mass subscriber migration to this product, including the Moscow region, where the majority of MTS subscribers in Russia reside. As a result, the volume of Strom Telecom services rendered to MTS and its subsidiaries during this period, as well as the segment's profitability during this period, was significantly higher than experienced previously.

IT Solutions

The increase in the IT Solutions segment revenues of $36.1 million, or 11.5%, from $312.9 million for the nine months ended September 30, 2005 to $349.0 million for the nine months ended September 30, 2006 was primarily due to an increase in revenues from distribution business of $33.1 million, or 13.1%, resulting from an increased demand for computer components and software distributed by the segment in Russian and Ukrainian markets. In the nine months ended September 30, 2006, revenues from the systems integration business increased by $3.0 million, or 5.0%, primarily resulting from increased sales of systems integration services to customers outside the Sistema group, which represented 24.7% and 33.5% of systems integration revenues in the nine months ended September 30, 2005 and 2006, respectively.

Microelectronic Solutions

The revenues of the Microelectronic Solutions segment increased by $39.7 million, or 103.2%, from $38.4 million for the nine months ended September 30, 2005 to $78.1 million for the nine months ended September 30, 2006. The launch of Smart Cards operations in March 2006 contributed $26.5 million to the increase in the segment's revenues. During 2006, the majority of Smart Cards revenues were to Sistema group companies. In the nine months ended September 30, 2006, revenues from sales of microelectronic components increased by $13.1 million, or 34.2%, over the same period in 2005.

Consumer Electronics

The increase in revenues of the Consumer Electronics segment of $45.5 million, or 106.9%, from $42.6 million for the nine months ended September 30, 2005 to $88.2 million for the nine months ended September 30, 2006 was due to an increase in sales of non-Sitronics brand products of $30.3 million and increase in sales of Sitronics brand products of $15.3 million, primarily resulting from the addition of Sitronics brand mobile phones to our product line (revenues of $7.9 million in the nine months ended September 30, 2006) and increases in sales of LCD (PDP) panels of $3.9 million, CRT televisions of $1.7 million and portable electronics (other than mobile phones) of $1.3 million compared to the same period in 2005.

Electronics Manufacturing Services

The revenues of the Electronics Manufacturing Services segment decreased by $11.4 million, or 25.0%, from $45.8 million for the nine months ended September 30, 2006 to $34.4 million for the nine months ended September 30, 2005. The decrease was mainly due to the completion of contracts with certain customers which were not replaced with new contracts, including in connection with our strategy of focusing on manufacturing LCD television sets instead of CRT television sets.

Operating income

Consolidated operating income decreased by $42.8 million, or 35.0%, from $122.3 million for the nine months ended September 30, 2005 to $79.5 million for the nine months ended September 30, 2006.

Operating income as a percentage of revenues decreased from 19.3% to 7.6%. The table below sets out operating income by segment, including as a percentage of segment revenues.

Operating income by segment	Nine months ended September 30			
	2005	% of segment revenues	2006	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Telecommunication Solutions	112,297	57.7%	75,221	14.9%
IT Solutions	5,947	1.9%	4,878	1.4%
Microelectronic Solutions	2,932	7.6%	14,394	18.4%
Consumer Electronics	1,351	3.2%	(4,751)	(5.4)%
Electronics Manufacturing Services	(813)	(1.8)%	(6,997)	(20.4)%
Corporate	542	n/a	(3,252)	n/a
Total	122,256		79,493	
% of total revenues	19.3%		7.6%	

Telecommunication Solutions

The table below sets out the Telecommunication Solution segment's revenues and costs, including as a percentage of segment revenues.

	Nine months ended September 30			
	2005	% of segment revenues	2006	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	194,650	100.0%	503,907	100.0%
Cost of sales (COS), exclusive of depreciation and amortization	(54,523)	(28.0)%	(300,019)	(59.5)%
Depreciation and amortization (D&A)	(1,887)	(1.0)%	(28,199)	(5.6)%
Selling, general and administrative expenses (SG&A)	(14,480)	(7.4)%	(72,094)	(14.3)%
Research and development (R&D)	(11,670)	(6.0)%	(26,897)	(5.3)%
Other operating expenses	207	0.1%	(1,477)	(0.3)%
Operating income	112,297	57.7%	75,221	14.9%

The Telecommunication Solutions segment's operating income decreased by $37.1 million, and operating margin decreased from 57.7% to 14.9%. The acquisition of Intracom Telecom decreased the segment's operating income for the nine months ended September 30, 2006 by $1.8 million.

COS, exclusive of D&A, increased by $245.5 million from $54.5 million for the nine months ended September 30, 2005 to $300.0 million for the nine months ended September 30, 2006. COS of Intracom Telecom for the nine months ended September 30, 2006 was $231.9 million, or 75.7% as a percentage of its revenues. COS of Strom Telecom (together with Sitronics Telecom Solutions) as a percentage of revenues increased from 28.0% in the nine months ended September 30, 2005 to 34.5% in the nine months ended September 30, 2006 reflecting relative decrease in the share of high-margin BSS/OSS products in the sales mix for the period.

D&A increased from $1.9 million for the nine months ended September 30, 2005 to $28.2 million for the nine months ended September 30, 2006, of which $20.0 million related to Intracom Telecom. The remaining increase primarily related to depreciation of the new Votice manufacturing and warehouse facilities that were put into operation in the end of 2005.

SG&A increased by $57.6 million, of which $46.6 million related to Intracom Telecom. SG&A of Strom Telecom (together with Sitronics Telecom Solutions) increased by $11.1 million primarily due to hiring of new employees as a result of expansion of the division's sales force and operations.

The acquisition of Intracom Telecom contributed $12.6 million to the total increase in the segment's R&D of $15.2 million in the nine months ended September 30, 2006 compared to the same period in 2005. R&D of Strom Telecom increased by $2.6 million to $14.3 million for the nine months ended September 30, 2006, primarily relating to costs of TENNET development.

IT Solutions

The table below sets out the IT Solution segment's revenues and costs, including as a percentage of segment revenues.

	Nine months ended September 30			
	2005	% of segment revenues	2006	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	312,912	100.0%	349,023	100.0%
COS, exclusive of D&A	(294,593)	(94.1)%	(330,384)	(94.7)%
D&A	(3,727)	(1.2)%	(3,925)	(1.1)%
SG&A	(8,400)	(2.7)%	(9,495)	(2.7)%
R&D	(229)	(0.1)%	(153)	(0.0)%
Other operating expenses	(16)	(0.0)%	(188)	(0.1)%
Operating income	5,947	1.9%	4,878	1.4%

The IT Solutions segment's operating income decreased by $1.1 million to $4.9 million for the nine months ended September 30, 2006. This decrease occurred as growth of revenues from IT components distribution outpaced the growth of system integration in the nine months ended September 30, 2006 leading to a reduction of system integration share in the segment revenues from 19.2% in the nine months ended September 30, 2005 to 18.1% in the nine months ended September 30, 2006. Our system integration business generally has significantly higher operating margins compared to distribution business.

COS, exclusive of D&A, increased by $35.8 million, or 12.1%, from $294.6 million for the nine months ended September 30, 2005 to $330.4 million for the nine months ended September 30, 2006. COS as a percentage of revenues increased from 94.1% to 94.7% as a result of a decrease of system integration share in the segment revenues for the period.

D&A increased by $0.2 million, or 5.3%, from $3.7 million for the nine months ended September 30, 2005 to $3.9 million for the nine months ended September 30, 2006. The increase resulted from capital expenditures incurred by segment in the fourth quarter of 2005 and during the nine months ended September 30, 2006.

SG&A increased by $1.1 million and remained at 2.7% of the segment's revenues.

Microelectronic Solutions

The table below sets out the Microelectronic Solutions segment's revenues and costs, including as a percentage of segment revenues.

	Nine months ended September 30			
	2005	% of segment revenues	2006	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	38,444	100.0%	78,131	100.0%
COS, exclusive of D&A	(25,933)	(67.5)%	(54,362)	(69.6)%
D&A	(1,323)	(3.4)%	(1,655)	(2.1)%
SG&A	(6,610)	(17.2)%	(7,364)	(9.4)%
Other operating expenses	(1,646)	(4.3)%	(356)	(0.5)%
Operating income	2,932	7.6%	14,394	18.4%

The Microelectronic Solutions segment's operating income increased by $11.5 million, and operating income as a percentage of segment revenues increased from 7.6% in the nine months ended September 30, 2005 to 18.4% in the nine months ended September 30, 2006. Microelectronic components business and Smart Cards contributed $10.1 million and $1.3 million, respectively, to the increase in the operating income in the nine months ended September 30, 2006. The main reason for an increase in the operating income of microelectronic components business in the nine months ended

September 30, 2006, in comparison with the same period in 2005, was growth in volume of sales of components, while personnel costs decreased as a result of a headcount reduction.

COS, exclusive of D&A, increased by $28.4 million, or 109.6%, from $25.9 million for the nine months ended September 30, 2005 to $54.4 million for the nine months ended September 30, 2006, including COS of Smart Cards of $24.2 million. COS of microelectronic components business as a percentage of revenues increased from 67.5% in the nine months ended September 30, 2005 to 69.6% in the nine months ended September 30, 2006, primarily due to addition of Smart Cards, where this percentage, especially at the early stage of development of this business, is higher than in the microelectronic components business. This increase was partially offset by reduction of personnel costs as a percentage of revenues in the microelectronic components business.

D&A increased by $0.3 million from $1.3 million for the nine months ended September 30, 2005 to $1.7 million for the nine months ended September 30, 2006. D&A as a percentage of revenues decreased from 3.4% to 2.1% as a result of addition of Smart Cards, where this percentage is lower than in the microelectronic components business. We expect this percentage to grow in the years ended December 31, 2007 and 2008, as we will acquire and put into operation the equipment for 0.18 micron wafer production facility.

SG&A in the nine months ended September 30, 2006 increased compared to the same period in 2005 by $0.8 million. An additional contribution of Smart Cards of $0.9 million was partially offset by economies from reduction of administrative personnel in the microelectronic components business.

Other operating expenses of $0.4 million for the nine months ended September 30, 2006 primarily comprised non-recoverable VAT and start-up expenses for Smart Cards.

Consumer Electronics

The table below sets out the Consumer Electronics segment's revenues and costs, including as a percentage of segment revenues.

	Nine months ended September 30			
	2005	% of segment revenues	2006	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	42,625	100.0%	88,172	100.0%
COS, exclusive of D&A	(38,302)	(89.9)%	(82,725)	(93.8)%
D&A	—	—	(114)	(0.1)%
SG&A	(3,349)	(7.9)%	(8,870)	(10.1)%
R&D	—	—	(264)	(0.3)%
Other operating income/(expenses)	377	0.9%	(950)	(1.1)%
Operating income/(loss)	1,351	3.2%	(4,751)	(5.4)%

The Consumer Electronics segment's operating loss for the nine months ended September 30, 2006 amounted to $4.8 million compared to operating income of $1.4 million in the nine months ended September 30, 2005. The operating loss occurred primarily due to an increase in SG&A, resulting from an increase in the number of employees and expenses related to the start of operations in Ukraine.

COS, exclusive of D&A, increased by $44.4 million, or 116.0%, from $38.3 million for the nine months ended September 30, 2005 to $82.7 million for the nine months ended September 30, 2006. COS as a percentage of revenues for the segment increased from 89.9% to 93.8%. This increase was primarily due to an increased share of non-Sitronics brand sales, where we have higher COS as a percentage of revenues compared to Sitronics brand sales. Our goal in pursuing non-Sitronics brand sales is to establish and enforce our sales channels and maintain relations with the main players in the market. We expect non-Sitronics brand sales to be replaced by Sitronics brand sales in future.

SG&A increased by $5.5 million, or 164.9%, from $3.3 million for the nine months ended September 30, 2005 to $8.9 million for the nine months ended September 30, 2006, and increased as a percentage of segment revenues from 7.9% to 10.1%. The increase primarily resulted from additional personnel costs.

Electronics Manufacturing Services

The table below sets out the Electronics Manufacturing Services segment's revenues and costs, including as a percentage of segment revenues.

	Nine months ended September 30			
	2005	% of segment revenues	2006	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	45,818	100.0%	34,374	100.0%
COS, exclusive of D&A	(42,147)	(92.0)%	(35,511)	(103.3)%
D&A	(661)	(1.4)%	(1,229)	(3.6)%
SG&A	(2,350)	(5.1)%	(2,798)	(8.1)%
Other operating expenses	(1,473)	(3.2)%	(1,833)	(5.3)%
Operating loss	(813)	(1.8)%	(6,997)	(20.4)%

The Electronics Manufacturing Services segment's operating loss increased by $6.2 million. The increase was primarily due to a decrease in volume of sales in the nine months ended September 30, 2006, as well as a decrease in market prices for LCD monitors in the second and third quarters of 2006.

COS, exclusive of D&A, decreased by $6.6 million, or 15.7%, from $42.1 million for the nine months ended September 30, 2005 to $35.5 million for the nine months ended September 30, 2006. COS as a percentage of revenues increased from 92.0% to 103.3% following a decrease in the volume of sales and a decrease in market prices for LCD monitors in the second and third quarters of 2006.

D&A increased by $0.6 million as a result of capital expenditures incurred in 2005 and the first nine months of 2006.

SG&A increased by $0.4 million, or 19.1%, from $2.4 million for the nine months ended September 30, 2005 to $2.8 million for the nine months ended September 30, 2006 and increased as a percentage of revenues from 5.1% to 8.1%, mostly due to costs incurred to restructure key business processes of the segment.

The main reason for an increase in other operating expenses of $0.4 million, from $1.5 million for the nine months ended September 30, 2005 to $1.8 million for the nine million ended September 30, 2006 was an intersegment charge of $0.6 million paid to Sitronics for a corporate guarantee.

Interest expense

Consolidated interest expense increased by $15.3 million, from $7.4 million for the nine months ended September 30, 2005 to $22.8 million for the nine months ended September 30, 2006. As a result of the acquisition of Intracom Telecom we assumed its debt amounting to $212.6 million as of September 30, 2006 and recorded related interest expense of $10.4 million in the nine months ended September 30, 2006. Interest expense on Eurobonds that we issued in March 2006 amounted to $9.5 million in the nine months ended September 30, 2006. At September 30, 2006, our total debt was $462.6 million with a weighted average interest rate of 7%, as compared to $112.1 million at December 31, 2005 with a weighted average interest rate of 8%.

Foreign currency transactions gain/(loss)

Consolidated foreign currency transactions gain amounted to $0.9 million for the nine months ended September 30, 2006 compared to a loss of $2.2 million for the nine months ended September 30, 2005. In the nine months ended September 30, 2006, foreign currency gains in Sitronics resulting from devaluation of U.S. dollar-denominated Eurobonds, offset Strom Telecom's losses from devaluation of U.S. dollar-denominated receivables.

Income tax expense

Consolidated income tax expense decreased by $5.8 million from $29.2 million for the nine months ended September 30, 2005 to $23.4 million for the nine months ended September 30, 2006. The decrease was primarily due to a decrease in our net income before taxes.

Our effective tax rate increased from 25.8% for the nine months ended September 30, 2005 to 37.3% for the nine months ended September 30, 2006. The tax rate in the nine months ended September 30, 2006 was higher than the nominal rate as we did not record tax loss carryforwards in the Consumer Electronics and Electronics Manufacturing Services segments due to uncertainty of their future realization.

Minority interests

Minority interests in net income of our subsidiaries was $24.7 million for the nine months ended September 30, 2005, most of which was related to the 33% interest in Strom Telecom that was not owned by us during the first half of 2005. In the nine months ended September 30, 2006, we owned 100% of Strom Telecom. Minority interest in net income of our subsidiaries for the nine months ended September 30, 2006 amounted to $2.3 million, mainly consisting of $2.6 million related to Kvazar-Micro, $1.8 million related to Mikron, partially offset by minority interest in net loss of Intracom Telecom of $3.4 million.

Net income

For the reasons stated above, net income decreased by $22.2 million, from $59.2 million for the nine months ended September 30, 2005 to $37.0 million for the nine months ended September 30, 2006.

Year ended December 31, 2005 compared to year ended December 31, 2004

Revenues

Consolidated revenues increased by $479.0 million, or 101.1%, from $473.6 million for the year ended December 31, 2004 to $952.6 million for the year ended December 31, 2005. The following table sets forth revenues by segment, including as a percentage of total revenues.

Revenues by segment	Years ended December 31 2004	% of total	2005	% of total
	(in thousands of U.S. dollars, except percentages)			
Telecommunication Solutions	87,777	18.5%	246,639	25.9%
IT Solutions	293,523	62.0%	468,404	49.2%
Microelectronic Solutions	52,053	11.0%	56,952	6.0%
Consumer Electronics	30,909	6.5%	124,038	13.0%
Electronics Manufacturing Services	21,352	4.5%	57,174	6.0%
Corporate	270	0.1%	65	0.0%
Eliminations	(12,292)	(2.6)%	(703)	(0.1)%
Total	473,592	100.0%	952,569	100.0%

Telecommunication Solutions

The revenues of the Telecommunication Solutions Segment increased by $158.9 million, or 181.0%, from $87.8 million for the year ended December 31, 2004 to $246.6 million for the year ended December 31, 2005, resulting from a substantial increase in sales to the Sistema group, primarily to MTS, of BSS/OSS, mobile switching equipment and intelligent networks. In particular, BSS/OSS revenues increased by $62.8 million in 2005, as we sold a significant amount of licenses and implementations of FORIS system at MTS.

IT Solutions

The increase in the IT Solutions segment revenues of $174.9 million, or 59.6%, from $293.5 million for the year ended December 31, 2004 to $468.4 million for the year ended

December 31, 2005 was due to an increase in revenues from the systems integration business of $60.6 million, or 182.0%, to $93.9 million, primarily resulting from sales of systems integration services to the Sistema group, and increase in revenues from the distribution business of $114.3 million, or 43.9%, to $374.5 million.

Microelectronic Solutions

The revenues of the Microelectronic Solutions segment increased by $4.9 million, or 9.4%, from $52.1 million for the year ended December 31, 2004 to $57.0 million for the year ended December 31, 2005, primarily resulting from an increase in volume of sales of microelectronic components.

Consumer Electronics

The increase in revenues of our Consumer Electronics segment of $93.1 million, or 301.3%, from $30.9 million for the year ended December 31, 2004 to $124.0 million for the year ended December 31, 2005 comprised an increase in sales of Sitronics brand goods of $24.7 million and of non-Sitronics brand goods of $68.4 million, including $24.5 million resulting from entrance into the Ukrainian market.

Electronics Manufacturing Services

The increase in revenues of the Electronics Manufacturing Services segment of $35.8 million, or 167.8%, from $21.4 million for the year ended December 31, 2004 to $57.2 million for the year ended December 31, 2005 was primarily due to consolidation of Kvant in 2005 which contributed $25.3 million to the segment's revenue. The remaining growth primarily resulted from an increase in sales to large customers, such as NT-Computers, Proview and Fujitsu-Siemens.

Operating income

Consolidated operating income increased by $116.2 million, or 445.7%, from $26.1 million for the year ended December 31, 2004 to $142.2 million for the year ended December 31, 2005. Operating income as a percentage of revenues increased from 5.5% to 14.9%. The table below sets out operating income by segment, including as a percentage of segment revenues.

	Years ended December 31			
Operating income by segment	**2004**	**% of segment revenues**	**2005**	**% of segment revenues**
	(in thousands of U.S. dollars, except percentages)			
Telecommunication Solutions	13,344	15.2%	132,049	53.5%
IT Solutions	(829)	(0.3)%	6,469	1.4%
Microelectronic Solutions	11,560	22.2%	3,622	6.4%
Consumer Electronics	2,372	7.7%	1,921	1.5%
Electronics Manufacturing Services	193	0.9%	(1,678)	(2.9)%
Corporate	(573)	n/a	(142)	n/a
Total	26,067		142,241	
% of total revenues	5.5%		14.9%	

Telecommunication Solutions

The table below sets out the Telecommunication Solutions segment's revenues and costs, including as a percentage of segment revenues.

	Years ended December 31			
	2004	% of segment revenues	2005	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	87,777	100.0%	246,639	100.0%
COS, exclusive of D&A	(45,669)	(52.0)%	(65,476)	(26.5)%
D&A	(1,793)	(2.0)%	(3,166)	(1.3)%
SG&A	(18,443)	(21.0)%	(21,704)	(8.8)%
R&D	(9,223)	(10.5)%	(23,339)	(9.5)%
Other operating income/(expenses)	695	0.8%	(905)	(0.4)%
Operating income	13,344	15.2%	132,049	53.5%

The Telecommunication Solutions segment's operating income increased by $118.7 million, and operating income as a percentage of segment revenues increased from 15.2% to 53.5%. The increase was primarily due to a significant increase in sales of higher margin BSS/OSS products, the majority of which were to Sistema group companies, mostly MTS.

COS, exclusive of D&A, increased by $19.8 million, or 43.4%, from $45.7 million for the year ended December 31, 2004 to $65.5 million for the year ended December 31, 2005. COS as a percentage of revenues decreased from 52.0% to 26.5%, mainly reflecting the increased percentage of higher margin BSS/OSS products in the sales mix. The percentage of revenues attributed to BSS/OSS sales increased from 33.7% in 2004 to 37.5% in 2005. The majority of sales of high margin BSS/OSS sales were to MTS and Sistema group companies.

D&A increased by $1.4 million, or by 76.6%, from $1.8 million for the year ended December 31, 2004 to $3.2 million for the year ended December 31, 2005, as a result of capital expenditures incurred by the segment, including acquisition of testing platforms for BSS/OSS and installation of a new production line at Tesla Tech.

SG&A in the year ended December 31, 2005 increased by $3.3 million. In July 2004, we entered into an agreement with a party controlled by management of Strom Telecom, for the sale of 33% of the shares of Strom Telecom for a cash consideration of $2.0 million. At the date of the transaction, the fair value of these shares was determined by our management to be approximately equal to the book value. The difference of $1.5 million was recorded in SG&A as a compensation to management in the year ended December 31, 2004. Apart from the effects of this transaction, the segment's SG&A increased by $4.8 million in the year ended December 31, 2005, primarily due to expansion of operations.

R&D increased from $9.2 million for the year ended December 31, 2004 to $23.3 million for the year ended December 31, 2005. Increase in R&D resulted from investment in development of new software products, such as TENNET, a platform for voice service transmission with channel commutation via new IP-protocols.

IT Solutions

The table below sets out the IT Solutions segment's revenues and costs, including as a percentage of segment revenues.

	Years ended December 31			
	2004	% of segment revenues	2005	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	293,523	100.0%	468,404	100.0%
COS, exclusive of D&A	(282,307)	(96.2)%	(444,826)	(95.0)%
D&A	(2,654)	(0.9)%	(5,089)	(1.1)%
SG&A	(9,354)	(3.2)%	(11,594)	(2.5)%
R&D	(23)	(0.0)%	(305)	(0.1)%
Other operating expenses	(14)	(0.0)%	(121)	(0.0)%
Operating income/(loss)	(829)	(0.3)%	6,469	1.4%

The IT Solutions segment's operating income increased by $7.3 million to $6.5 million for the year ended December 31, 2005 from an operating loss of $0.8 million for the year ended December 31, 2004. This increase was primarily due to the growth in the percentage of system integration sales in total sales, from 11.3% to 20.0%. System integration generally has higher operating margins compared to IT components distribution business.

COS, exclusive of D&A, increased by $162.5 million, or 57.6%, from $282.3 million for the year ended December 31, 2004 to $444.8 million for the year ended December 31, 2005, roughly in line with the growth in segment revenues of 59.6%.

D&A increased by $2.4 million, or 91.7%, from $2.7 million for the year ended December 31, 2004 to $5.1 million for the year ended December 31, 2005, due to an increase in amortization charge for customer contracts and related customer relationships recorded upon the acquisition of Kvazar-Micro by Sistema in July 2004. In 2005, this amortization charge was accrued throughout the year, while in 2004 it was only recorded starting from the date of acquisition.

SG&A increased by $2.2 million, or 23.9%, from $9.4 million for the year ended December 31, 2004 to $11.6 million for the year ended December 31, 2005. The increase was primarily due to an overall increase in the number of employees and salary levels.

Microelectronic Solutions

The table below sets out the Microelectronic Solutions segment's revenues and costs, including as a percentage of segment revenues.

	Years ended December 31			
	2004	% of segment revenues	2005	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	52,053	100.0%	56,952	100.0%
COS, exclusive of D&A	(33,651)	(64.6)%	(38,737)	(68.0)%
D&A	(1,488)	(2.9)%	(1,964)	(3.4)%
SG&A	(3,964)	(7.6)%	(8,904)	(15.6)%
Other operating expenses	(1,390)	(2.7)%	(3,725)	(6.5)%
Operating income	11,560	22.2%	3,622	6.4%

The Microelectronic Solutions segment's operating income decreased by $7.9 million, and operating income as a percentage of segment revenues decreased from 22.2% to 6.4%. The main reason for the decrease in 2005 is that operating income was significantly enhanced in 2004 due to a reduction in bad debt provision recorded in that year. Additionally, in that year the segment sold to Strom Telecom a significant volume of integrated circuits previously considered obsolete. Strom Telecom was able to use these ICs in manufacturing of its network solutions.

COS, exclusive of D&A, increased by $5.1 million, or 15.1%, from $33.7 million for the year ended December 31, 2004 to $38.7 million for the year ended December 31, 2005. Growth in COS outpaced the growth in segment revenues of 9.4%, resulting in an increase of COS as a percentage of revenues from 64.6% to 68.0%. COS as a percentage of revenues was lower in 2004, mainly as a result of profit derived from sale of ICs to Strom Telecom.

D&A increased by $0.5 million, or 32.0%, from $1.5 million for the year ended December 31, 2004 to $2.0 million for the year ended December 31, 2005. This increase reflects continuing investment in the production equipment of the Microelectronic Solutions segment.

SG&A increased by $4.9 million, and increased as a percentage of segment revenues from 7.6% to 15.6%. The increase was due to partial release during the year ended December 31, 2004 of a provision for doubtful debts accrued in prior periods of approximately $5.0 million, as the segment collected or restructured certain overdue debts, whose collection was previously considered to be doubtful.

The increase in other operating expenses of $2.3 million in 2005 primarily related to an intersegment charge paid by Mikron to Sitronics for a corporate guarantee.

Consumer Electronics

The table below sets out the Consumer Electronics segment's revenues and costs, including as a percentage of segment revenues.

	Years ended December 31			
	2004	% of segment revenues	2005	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	30,909	100.0%	124,038	100.0%
COS, exclusive of D&A	(27,867)	(90.2)%	(113,887)	(91.8)%
D&A	(29)	(0.1)%	(1)	(0.0)%
SG&A	(579)	(1.9)%	(7,040)	(5.7)%
Other operating expenses	(62)	(0.2)%	(1,189)	(1.0)%
Operating income	2,372	7.7%	1,921	1.5%

The Consumer Electronics segment's operating income decreased by $0.5 million, and decreased as a percentage of segment revenues from 7.7% to 1.5%. The decrease in operating income as a percentage of revenues was primarily due to higher growth of COS and SG&A versus increase in revenues, as the share of lower-margin non-Sitronics brand goods in the segment's sales mix increased in the year ended December 31, 2005 from 54.0% to 68.6%.

COS increased by $86.0 million, or 308.7%, from $27.9 million for the year ended December 31, 2004 to $113.9 million for the year ended December 31, 2005. COS as a percentage of revenues increased from 90.2% in 2004 to 91.8% in 2005, reflecting the increase of share of lower-margin non-Sitronics brand goods in the segment's sales mix.

The Consumer Electronics segment's SG&A increased by $6.5 million, and increased as a percentage of segment revenues from 1.9% to 5.7%. The growth was primarily due to an increase in advertising and personnel costs and set-up expenses related to operations in Ukraine.

The main factors contributing to an increase in other operating expenses of $1.1 million for the year ended December 31, 2005 included an intersegment charge of $0.3 million paid to Sitronics for a corporate guarantee and loss from disposal of short-term investments of $0.2 million.

Electronics Manufacturing Services

The table below sets out the Electronics Manufacturing Services segment's revenues and costs, including as a percentage of segment revenues.

	Years ended December 31			
	2004	% of segment revenues	2005	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	21,352	100.0%	57,174	100.0%
COS, exclusive of D&A	(19,389)	(90.8)%	(52,858)	(92.5)%
D&A	(430)	(2.0)%	(1,036)	(1.8)%
SG&A	(772)	(3.6)%	(3,427)	(6.0)%
Other operating expenses	(568)	(2.7)%	(1,531)	(2.7)%
Operating income/(loss)	193	0.9%	(1,678)	(2.9)%

The Electronics Manufacturing Services segment's operating income decreased by $1.9 million from an operating income of $0.2 million in 2004 to an operating loss of $1.7 million in 2005. The decrease was primarily due to increase in COS and SG&A resulting from the acquisition of Kvant.

COS, exclusive of D&A, increased by $33.5 million, or 172.6%, from $19.4 million for the year ended December 31, 2004 to $52.9 million for the year ended December 31, 2005 outpacing the growth in segment revenues of 167.8%, resulting in an increase in COS as a percentage of revenues from 90.8% to 92.5%. Such increase occurred as operations of Kvant, acquired in 2005, had relatively lower margins compared to the existing operations of the segment.

SG&A increased by $2.7 million. Acquisition and integration of Kvant contributed $1.2 million to the increase. The remaining increase was primarily due to hiring of additional administrative personnel and costs incurred in 2005 for repair of production facilities.

Other operating expenses increased by $1.0 million in the year ended December 31, 2005 as a result of a write-off of obsolete materials.

Interest expense

Consolidated interest expense increased by $2.7 million, or 37.8%, from $7.1 million for the year ended December 31, 2004 to $9.8 million for the year ended December 31, 2005, primarily as a result of an increase in our indebtedness, including loans from ABN Amro and Donau Bank. At December 31, 2004, our total debt was $85.6 million with a weighted average interest rate of 12%, as compared to $112.1 million at December 31, 2005 with a weighted average interest rate of 8%.

Foreign currency transactions gain/(loss)

Foreign currency transactions resulted in a $0.2 million gain for the year ended December 31, 2004 and $2.9 million loss for the year ended December 31, 2005. In the year ended December 31, 2005, foreign currency loss resulted primarily from Strom Telecom's losses from devaluation of U.S. dollar-denominated receivables.

Income tax expense

Consolidated income tax expense increased by $31.9 million from $3.2 million for the year ended December 31, 2004 to $35.1 million for the year ended December 31, 2005. The increase was primarily due to an increase in our net income before taxes.

Our effective tax rate increased from 16.7% for the year ended December 31, 2004 to 27.0% for the year ended December 31, 2005. Our tax rate in 2004 was lower than the nominal rate as Mikron's reversal of bad debt provision and gain on sale of inventories previously considered obsolete did not result in taxable gains in Mikron's accounts. Additionally, the valuation allowance for tax loss carryforwards of Korona Semiconductors in the Microelectronic Solutions segment was released as a result of the merger of this entity with Mikron. In addition, most of the entities of the Consumer Electronics segment moved from a taxable loss position to a taxable income position during the year ended December 31, 2004.

Minority interests

Minority interests in the net income of our subsidiaries amounted to $26.0 million for the year ended December 31, 2005, of which $20.6 million was related to the 33% interest in Strom Telecom that was not owned by us during the first half of 2005 and approximately $5.3 million related to the 49% minority interest in Kvazar-Micro.

Net income

For the reasons stated above, net income increased by $57.9 million from $11.4 million for the year ended December 31, 2004 to $69.2 million for the year ended December 31, 2005.

Year ended December 31, 2004 compared to year ended December 31, 2003

Revenues

Consolidated revenues increased by $374.5 million, or 378.1%, from $99.1 million for the year ended December 31, 2003 to $473.6 million for the year ended December 31, 2004. The following table sets forth revenues by segment, including as a percentage of total revenues.

	Years ended December 31			
Revenues by segment	**2003**	**% of total**	**2004**	**% of total**
	(in thousands of U.S. dollars, except percentages)			
Telecommunication Solutions	50,457	50.9%	87,777	18.5%
IT Solutions	—	—%	293,523	62.0%
Microelectronic Solutions	40,826	41.2%	52,053	11.0%
Consumer Electronics	3,363	3.4%	30,909	6.5%
Electronics Manufacturing Services	4,676	4.7%	21,352	4.5%
Corporate	91	0.1%	270	0.1%
Eliminations	(358)	(0.4)%	(12,292)	(2.6)%
Total	99,055	100.0%	473,592	100.0%

Telecommunication Solutions

The revenues of the Telecommunication Solutions segment increased by $37.3 million, or 74.0%, from $50.5 million in the year ended December 31, 2003 to $87.8 million for the year ended December 31, 2004. BSS/OSS revenues increased by $16.3 million in 2004 as we delivered and began installation of BSS/OSS under the contracts with the Moscow office and regional offices of MTS and with MGTS. Revenues from sales of network solutions increased by $21.0 million, as we began delivering equipment under several contracts with MTS and MGTS.

IT Solutions

We started including the results of operations of Kvazar-Micro, which represents the entirety of our IT Solutions segment, in our consolidated financial statements from January 1, 2004. See "—Acquisitions" above.

Microelectronic Solutions

The increase in the Microelectronic Solutions segment revenues of $11.2 million, or 27.5%, from $40.8 million for the year ended December 31, 2003 to $52.1 million for the year ended December 31, 2004 was primarily due to a sale of microelectronic components from Mikron to Strom Telecom.

Consumer Electronics

The increase in the Consumer Electronics segment revenues of $27.5 million from $3.4 million for the year ended December 31, 2003 to $30.9 million for the year ended December 31, 2004 resulted from an increase in sales of Sitronics brand consumer electronic devices of $10.9 million from $3.3 million to $14.2 million and sales of non-Sitronics brand goods of $16.6 million from $0.1 million of $16.7 million. Sitronics brand sales in 2003 and 2004 were mostly CRT televisions, however in 2004 we added Sitronics brand DVDs and LCD (PDP) panels. Non-Sitronics brand products were also added to our product line in 2004.

Electronics Manufacturing Services

The increase in the Electronics Manufacturing Services revenues of $16.7 million, or 356.6%, from $4.7 million for the year ended December 31, 2003 to $21.4 million for the year ended December 31, 2004 was due to the launch of assembly of consumer electronic devices at the segment's production facilities, mainly CRT televisions and monitors.

Operating income

Consolidated operating income increased by $16.0 million from $10.1 million for the year ended December 31, 2003 to $26.1 million for the year ended December 31, 2004. Operating income as a percentage of revenues decreased from 10.2% to 5.5%. The table below sets out operating income by segment, including as a percentage of segment revenues.

	Years ended December 31			
Operating income by segment	**2003**	**% of segment revenues**	**2004**	**% of segment revenues**
	(in thousands of U.S. dollars, except percentages)			
Telecommunication Solutions	10,060	19.9%	13,344	15.2%
IT Solutions	—	—%	(829)	(0.3)%
Microelectronic Solutions	4,183	10.2%	11,560	22.2%
Consumer Electronics	(3,059)	(91.0)%	2,372	7.7%
Electronics Manufacturing Services	(408)	(8.7)%	193	0.9%
Corporate	(719)	n/a	(573)	n/a
Total	10,057		26,067	
% of total revenues	10.2%		5.5%	

Telecommunication Solutions

The table below sets out the Telecommunication Solutions segment's revenues and costs, including as a percentage of segment revenues.

	Years ended December 31			
	2003	**% of segment revenues**	**2004**	**% of segment revenues**
	(in thousands of U.S. dollars, except percentages)			
Revenues	50,457	100.0%	87,777	100.0%
COS, exclusive of D&A	(23,572)	(46.7)%	(45,669)	(52.0)%
D&A	(586)	(1.2)%	(1,793)	(2.0)%
SG&A	(8,063)	(16.0)%	(18,443)	(21.0)%
R&D	(7,828)	(15.5)%	(9,223)	(10.5)%
Other operating (expenses)/income	(348)	(0.7)%	695	0.8%
Operating income	10,060	19.9%	13,344	15.2%

The Telecommunication Solutions segment's operating income increased by $3.3 million, and operating income as a percentage of segment revenues decreased from 19.9% to 15.2%. The decrease in operating income as a percentage of sales was primarily due to an increase in personnel costs, resulting from nonrecurring compensation to top management of Strom Telecom and expansion of operations, partially offset by other operating income from the sale of Strom Telecom shares.

COS increased by $22.1 million, or 93.7%, from $23.6 million for the year ended December 31, 2003 to $45.7 million for the year ended December 31, 2004 outpacing the growth in segment revenues of 74.0%, due to an increase in personnel costs.

D&A increased from $0.6 million in the year ended December 31, 2003 to $1.8 million for the year ended December 31, 2004. This increase resulted from acquisitions of production equipment in the year ended December 31, 2004.

SG&A increased by $10.4 million in the year ended December 31, 2004. In July 2004, we entered into an agreement with a party controlled by management of Strom Telecom for the sale of 33% of the shares of Strom Telecom for a cash consideration of $2.0 million. At the date of the transaction, the fair value of these shares was determined by our management to be approximately equal to the book value. The difference of $1.5 million was recorded in SG&A as a compensation to management in the year ended December 31, 2004. The remaining growth of SG&A of $8.9 million was due to a significant increase in number of employees resulting from the growth in the segment's business.

R&D increased by $1.4 million, or 17.8%, from $7.8 million for the year ended December 31, 2003 to $9.2 million for the year ended December 31, 2004, as the segment continued to invest in development of new software products.

IT Solutions

The table below sets out the IT Solution segment's revenues and costs, including as a percentage of segment revenues.

	Years ended December 31			
	2003	% of segment revenues	2004	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	—	—%	293,523	100.0%
COS, exclusive of D&A	—	—%	(282,307)	(96.2)%
D&A	—	—%	(2,654)	(0.9)%
SG&A	—	—%	(9,354)	(3.2)%
R&D	—	—%	(23)	(0.0)%
Other operating expenses	—	—%	(14)	(0.0)%
Operating loss	—	—%	(829)	(0.3)%

We acquired Kvazar-Micro and established our IT Solutions segment in July 2004. Operating results of Kvazar-Micro are included in our consolidated financial statements starting from January 1, 2004. See "—Acquisitions" above.

Microelectronic Solutions

The table below sets out the Microelectronic Solutions segment's revenues and costs, including as a percentage of segment revenues.

	Years ended December 31			
	2003	% of segment revenues	2004	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	40,826	100.0%	52,053	100.0%
COS, exclusive of D&A	(25,474)	(62.4)%	(33,651)	(64.6)%
D&A	(2,436)	(6.0)%	(1,488)	(2.9)%
SG&A	(7,085)	(17.4)%	(3,964)	(7.6)%
Other operating expenses	(1,648)	(4.0)%	(1,390)	(2.7)%
Operating income	4,183	10.2%	11,560	22.2%

The Microelectronics Solutions segment's operating income increased by $7.4 million, and operating income as a percentage of segment revenues increased from 10.2% to 22.2%. The increase was primarily due to sale of ICs to Strom Telecom and a reversal of previously recorded bad debt provision, as we were able to collect or renegotiate settlement terms for certain overdue accounts receivable.

COS, exclusive of D&A, increased by $8.2 million, or 32.1%, from $25.5 million for the year ended December 31, 2003 to $33.7 million for the year ended December 31, 2004, primarily due to an increase in sales volumes. As a percentage of the revenues, COS, exclusive of D&A, also increased from 62.4% in 2003 to 64.6% in 2004 due to significant growth in tariffs for electricity and heating.

D&A decreased by $0.9 million as a result of sale or liquidation of old items of property, plant and equipment.

SG&A decreased by $3.1 million due to partial release during the year ended 31 December 2004 of a provision for doubtful debts accrued in prior periods, as the segment collected or restructured certain overdue debts previously considered to be doubtful.

Consumer Electronics

The table below sets out the Consumer Electronics segment's revenues and costs, including as a percentage of segment revenues.

	Years ended December 31			
	2003	% of segment revenues	2004	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	3,363	100.0%	30,909	100.0%
COS, exclusive of D&A	(3,303)	(98.2)%	(27,867)	(90.2)%
D&A	(34)	(1.0)%	(29)	(0.1)%
SG&A	(2,993)	(89.0)%	(579)	(1.9)%
Other operating expenses	(92)	(2.7)%	(62)	(0.2)%
Operating income/(loss)	(3,059)	(91.0)%	2,372	7.7%

In 2004 the Consumer Electronics segment completed its development stage and fully introduced the Sitronics brand into the Russian market. As a result of an increase in the scope of operations, the segment's operating income increased by $5.4 million.

COS, exclusive of D&A, increased by $24.6 million from $3.3 million for the year ended December 31, 2003 to $27.9 million in the year ended December 31, 2004 lagging behind the growth in segment revenues of 819.1%, resulting in a decrease of COS as a percentage of revenues from 98.2% to 90.2%. This decrease was mostly due to economies of scale. Additionally, in 2004 the segment started selling CDMA mobile phones, where margins were higher compared to the other products of the segment.

SG&A decreased by $2.4 million, primarily due to a reversal of a bad debt provision.

Electronics Manufacturing Services

The table below sets out the Electronics Manufacturing Services segment's revenues and costs, including as a percentage of segment revenues.

	Years ended December 31			
	2003	% of segment revenues	2004	% of segment revenues
	(in thousands of U.S. dollars, except percentages)			
Revenues	4,676	100.0%	21,352	100.0%
COS, exclusive of D&A	(3,431)	(73.4)%	(19,389)	(90.8)%
D&A	(512)	(10.9)%	(430)	(2.0)%
SG&A	(1,225)	(26.2)%	(772)	(3.6)%
Other operating expenses	84	1.8%	(568)	(2.7)%
Operating income/(loss)	(408)	(8.7)%	193	0.9%

The Electronics Manufacturing Services segment's operating income increased by $0.6 million. The increase was primarily due to significant growth of revenues and reductions in the provisions for bad debt and inventory obsolescence.

COS increased by $16.0 million, or 465.1%, from $3.4 million for the year ended December 31, 2003 to $19.4 million for the year ended December 31, 2004 outpacing the growth in segment revenues of 356.6%. The main reason for the increase was additional start-up costs for installing a new production line with additional annual production capacity of 20,000 units annually.

SG&A decreased by $0.5 million, primarily due to a decrease in bad debt provision resulting from actions undertaken by management to collect overdue debts.

Interest expense

Consolidated interest expense increased by $4.3 million, or 156.9%, from $2.8 million for the year ended December 31, 2003 to $7.1 million for the year ended December 31, 2004, primarily as a result of an increase in our indebtedness partially offset by a lower cost of borrowing during the period. At December 31, 2003, our total debt was $55.7 million with a weighted average interest rate of 14%, as compared to $85.6 million at December 31, 2004 with a weighted average interest rate of 12%.

Foreign currency transactions gain

Consolidated foreign currency transactions gain decreased from $1.4 million for the year ended December 31, 2003 to $0.2 million for the year ended December 31, 2004. Foreign currency transactions gain in both years resulted from devaluation of U.S. dollar-denominated liabilities of the group, partially offset by devaluation of U.S. dollar-denominated assets.

Income tax expense

Consolidated income tax expense increased by $0.3 million, or 10.5%, from $2.9 million for the year ended December 31, 2003 to $3.2 million for the year ended December 31, 2004. The increase was primarily due to an increase in our net income before taxes.

Our effective tax rate decreased from 33.7% for the year ended December 31, 2003 to 16.7% for the year ended December 31, 2004, as Mikron's reversal of bad debt provision and gain on sale of inventories previously considered obsolete did not result in taxable gains in Mikron's accounts. Additionally, the valuation allowance for tax loss carryforwards of Korona Semiconductors in the Microelectronic Solutions segment was released as a result of the merger of this entity with Mikron. In addition, most of the entities of the Consumer Electronics segment moved from a taxable loss position to a taxable income position during the year ended December 31, 2004.

Minority interests

Minority interests in net income of our subsidiaries was $4.8 million for the year ended December 31, 2004, of which $2.2 million was related to the 33% interest in Strom Telecom that was not owned by us during the second half of 2004.

Net income

For the reasons stated above, net income increased from $5.0 million for the year ended December 31, 2003 to $11.4 million for the year ended December 31, 2004.

Liquidity and Capital Resources

Capital requirements

We need capital to finance the following:

- capital expenditures, consisting of purchases of property, plant and equipment and intangible assets;
- acquisitions;
- repayment of debt;
- changes in working capital; and
- general corporate activities, including dividends.

We anticipate that capital expenditures and acquisitions will represent the most significant uses of funds for the next few years.

Capital expenditures

The following table sets out our cash outlays for capital expenditures for the periods under review.

Capital expenditures by segment[1]	Years ended December 31 2003	2004	2005	Nine months ended September 30, 2006
	(in thousands of U.S. dollars)			
Telecommunication Solutions	2,141	2,209	32,582	29,346
IT Solutions	—	1,196	2,301	663
Microelectronic Solutions	1,098	1,460	3,316	29,690
Consumer Electronics	643	596	2,380	409
Electronics Manufacturing Services	1,369	1,075	5,554	2,752
Corporate	367	567	1,261	411
Total	5,618	7,103	47,394	63,271

(1) Includes cash outlays for acquisitions of property, plant and equipment and intangible assets.

We have invested $63.3 million for nine months ended September 30, 2006 and we expect our capital expenditures for the fourth quarter of 2006 and the year 2007 will amount to almost $200 million, excluding acquisitions. These investments will be focused on developing the production facilities of our Microelectronic Solutions segment to include the fabrication of 0.18 micron EEPROM integrated circuits, smart cards, memory modules and transportation cards for the Moscow transportation system, as well as on financing of new projects in the Telecommunication Solutions segment.

Acquisitions

We expect that acquisitions will be a key part of our growth strategy. At present we are seeking acquisition targets that will support rapid growth by access to new clients, markets and technologies in the Telecommunication Solutions, IT Solutions and Microelectronic Solutions segments. See "Business—Strategy."

Our cash requirements relating to potential acquisitions may vary significantly based on market opportunities.

Dividends

We do not currently intend to pay any dividends for the next three years. In accordance with our strategy, we expect to reinvest substantially all of our operating cash flows into our business. Moreover, our current dividend policy, adopted by our Board of Directors in December 2005, limits our dividends to no more than 2% of our annual consolidated net profits, as determined under U.S. GAAP, subject to any applicable Russian legal restrictions. Our dividend policy will be adjusted from time to time in accordance with our investment needs.

Repayment of debt

We intend to repay approximately $150.0 million of our debt using the proceeds of the offering.

Capital resources

In 2005, our primary sources of funding were net cash flows from operations ($58.6 million), net proceeds from borrowings ($24.4 million) and net contributions of the controlling shareholder ($32.3 million). For the nine months ended September 30, 2006, our primary sources of funding were net proceeds from issuance of shares ($188.7 million, including a prepayment for shares to be issued to EBRD of $79.7 million) and net proceeds from borrowings ($126.4 million). We entered into a subscription agreement with EBRD dated September 12, 2006, pursuant to which EBRD subscribed for 3.67% of our shares for $80.0 million. We plan to continue to finance our funding requirements through a mix of operating cash flow and financing activities, including the offering and future borrowings.

The following table sets out the maturity profile of our debt as of September 30, 2006:

Payments due in the twelve months ended September 30	(in thousands of U.S. dollars)
2007	253,030
2008	217
2009	199,599
2010	8,230
2011	127
Thereafter	1,436
Total	462,639

Our 7.875% Notes due 2009, issued in March 2006 in the principal amount of $200.0 million, require us meet a 4:1 debt-to-operating income before depreciation and amortization (OIBDA) ratio in order to incur any additional indebtedness. The notes contain certain other restrictive covenants, including limitations on sale and lease-back transactions, incurrence of subsidiary debt, negative pledge, restrictions on merger and acquisition and disposition of assets. See "Description of Certain Indebtedness."

The Intracom Telecom syndicated loan contains certain other restrictive covenants, including limitations on incurrence of debt, negative pledge, restrictions on merger and acquisition and disposition of assets. See "Description of Certain Indebtedness."

Cash flows

A summary of our cash flows is presented below:

	Years ended December 31			Nine months ended September 30	
	2003	2004	2005	2005	2006
	(in thousands of U.S. dollars)				
Net cash provided by/(used in) operating activities	(7,081)	(2,995)	58,605	(22,813)	(100,729)
Net cash (used in)/provided by investing activities:					
Capital expenditures[1]	(5,618)	(7,103)	(47,394)	(20,483)	(63,271)
Purchase of businesses, net of cash acquired	—	11,195	(28,658)	(15,042)	(57,520)
Purchases of short-term and long-term investments, net of proceeds from sale	(2,088)	3,771	3,711	6,119	524
Proceeds from disposals of property, plant and equipment	—	2,223	2,546	2,546	3,121
Proceeds from disposal of an interest in a subsidiary	—	2,000	—	—	—
Total	(7,706)	12,086	(69,795)	(26,860)	(117,146)
Net cash provided by financing activities:					
Proceeds from issuance of shares, net of repurchase of stock and transfers to the controlling shareholder	—	—	32,268	32,930	188,740
Proceeds from borrowings, net of debt issuance costs	24,621	53,374	102,929	71,968	324,533
Principal payments on borrowings and capital lease obligations	(7,363)	(28,141)	(78,481)	(61,582)	(198,183)
Dividends paid	—	—	—	—	(1,586)
Total	17,258	25,233	56,716	43,316	313,504
Effects of foreign currency translation on cash and cash equivalents	275	520	(1,852)	(1,741)	6,748
Net increase/(decrease) in cash and cash equivalents	2,746	34,844	43,674	(8,098)	102,377

(1) Includes cash outlays for acquisitions of property, plant and equipment and intangible assets.

Nine months ended September 30, 2005 compared to nine months ended September 30, 2006

Net cash used in operating activities increased from $22.8 million for the nine months ended September 30, 2005 to $100.7 million for the nine months ended September 30, 2006. The increase resulted from a decrease in operating income in the nine months ended September 30, 2006 and from an increase in the balance due from Sistema's subsidiaries, primarily in the Telecommunication Solutions segment.

Net cash used in investing activities increased from $26.9 million for the nine months ended September 30, 2005 to $117.1 million for the nine months ended September 30, 2006. The increase resulted from an acquisition of Intracom Telecom and an increase in capital expenditures during the nine months ended September 30, 2006.

Net cash provided by financing activities increased by $270.2 million from $43.3 million for the nine months ended September 30, 2005 to $313.5 million for the nine months ended September 30, 2006. The increase primarily related to the issuance of our shares to Sistema and EBRD and the issuance of Eurobonds in the nine months ended September 30, 2006.

Year ended December 31, 2004 compared to year ended December 31, 2005

Net cash provided by operating activities amounted to $58.6 million for the year ended December 31, 2005. In the year ended December 31, 2004 net cash used in operating activities amounted to $3.0 million. The increase was primarily attributable to an increase in operating income in 2005. Also, in the fourth quarter of 2005, we collected amounts due from MTS under certain arrangements related to the supply of BSS/OSS.

Net cash inflows from investing activities for the year ended December 31, 2004 was $12.1 million, compared to net cash outflows from investing activities of $69.8 million for the year ended December 31, 2005. Capital expenditures in the Telecommunication Solutions and Electronics Manufacturing Services segments and acquisitions of Kvazar-Micro, Kvant, Sitronics Telecom Solutions and a minority interest in Strom Telecom were the principal reason for significant cash outflows in 2005.

Net cash provided by financing activities increased by $31.5 million from $25.2 million for the year ended December 31, 2004 to $56.7 million for the year ended December 31, 2005. The increase primarily related to $56.8 million contributed by Sistema in 2005 as a prepayment for our shares that were issued in 2006, partially offset by cash transfers to Sistema for shares of Kvazar-Micro and Sitronics Telecom Solutions of $24.6 million.

Year ended December 31, 2003 compared to year ended December 31, 2004

Net cash used in operating activities amounted to $3.0 million for the year ended December 31, 2004. In the year ended December 31, 2003, net cash used in operating activities amounted to $7.1 million. The decrease was primarily attributable to an increase in operating income before depreciation and amortization, partially offset by an increase in prepaid expenses in the year ended December 31, 2004.

Net cash inflows from investing activities for the year ended December 31, 2004 was $12.1 million, compared to net cash outflows from investing activities of $7.7 million for the year ended December 31, 2003. The principal reason for the change were cash inflows from the acquisition of Kvazar-Micro that was paid for by Sistema, cash inflows from disposal of a 33% interest in Strom Telecom and proceeds from sales of long-term assets in the year ended December 31, 2004.

Net cash provided by financing activities increased by $8.0 million from $17.3 million for the year ended December 31, 2003 to $25.2 million for the year ended December 31, 2004. The increase was due to an increase in net proceeds from borrowings in the year ended December 31, 2004.

Credit Ratings

Our credit ratings impact our ability to obtain short- and long-term financing, and the cost of such financing. In determining our credit ratings, the rating agencies consider a number of factors, including our operating cash flows, total debt outstanding, commitments, interest requirements, liquidity needs and availability of liquidity. Other factors considered may include our business strategy, the condition of our industry and our position within the industry. Although we understand that these and other factors are among those considered by the rating agencies, each agency might calculate and weigh each factor differently.

The credit ratings of our Eurobonds as of the date of this document are as follows:

Rating Agency	Date of Rating	Long-term Debt Rating	Outlook/Watch
Fitch	February 14, 2006	B-	Stable
Moody's	February 15, 2006	B3	Stable

Liquidity

Our consolidated working capital, defined as current assets, including cash and cash equivalents, less current liabilities, including short-term debt, increased by $312.8 million from $70.6 million as of December 31, 2005 to $383.4 million as of September 30, 2006. The increase in working capital during the nine months ended September 30, 2006 was primarily attributable to the issuance of our shares and long-term Eurobonds issued in this period.

Tabular Disclosure of Contractual Obligations

We have various contractual obligations and commercial commitments to make future payments, including debt agreements, lease obligations and certain committed obligations. The following table summarizes our future obligations under these contracts due by the periods indicated as of September 30, 2006:

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
	(in thousands of U.S. dollars)				
Contractual obligations:					
Loans and notes payable	253,030	199,816	8,357	1,436	462,639
Interest	16,991	13,418	561	96	31,066
Capital leases	3,818	3,130	—	—	6,948
Operating leases	1,796	3,592	2,855	5,602	13,845
Committed investments:					
Purchases of property, plant and equipment	120,000	—	—	—	120,000
Total	395,635	219,956	11,773	7,134	634,498

Commitments with respect to the purchase of property, plant and equipment consist of Mikron's contractual obligation to acquire equipment for fabrication of 0.18 micron integrated circuits for approximately $120 million.

In addition, we are required to repurchase G&D's minority stake in Smart Cards in the event of our breach of certain conditions set by the foundation agreement, including a failure to achieve certain sales targets for the years ended December 31, 2006 and 2007.

Guarantees

In the year ended December 31, 2005, we issued guarantees to Commerzbank for loans obtained by Invest-Svyaz-Holding, a subsidiary of Sistema, for a total amount of $18.0 million. The guarantees expire in 2007. Invest-Svyaz-Holding is using Commerzbank loans to finance acquisitions of our products to be further leased to other subsidiaries of the Sistema group.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We are exposed to variability in cash flows related to our variable interest rate debt and exposed to fair value risk related to our fixed-rate debt. As of September 30, 2006, approximately $230.8 million, or 49.9% of our total indebtedness, including capital leases, was variable interest rate debt, while the other 50.1% was fixed interest rate debt.

For indebtedness with variable interest rates, the table below presents principal cash flows and related weighted average interest rates by contractual maturity dates as of September 30, 2006:

Bank	Currency	2007	2008	2009	2010	2011 and thereafter	Total	Annual interest rate (Actual interest rate at 30 September 2006)
					(in thousands)			
Syndicated loan	USD	121,201	—	—	—	—	121,201	LIBOR+1.5%
National Bank	EUR	9,390	—	—	—	—	9,390	EURIBOR+1.0%
Syndicated loan	USD	6,502	—	—	—	—	6,502	LIBOR+1.35%
Emporiki bank	EUR	4,187	—	—	—	—	4,187	EURIBOR+1.25%
Alpha bank	EUR	2,120	—	—	—	—	2,120	EURIBOR+1.5%
Alpha bank	EUR	6,344	—	—	—	—	6,344	EURIBOR+1.0%
Societe Generale-Geniki Bank	EUR	24,711	—	—	—	—	24,711	EURIBOR+1.2%
HypoVereinsBank	EUR	12,943	—	—	—	—	12,943	EURIBOR+0.8%
Citibank	USD	2,160	—	—	—	—	2,160	EURIBOR+1.5%
Piraeus Bank	EUR	5,075	—	—	—	—	5,075	EURIBOR+1.1%
Eurobank	EUR	10,532	—	—	—	—	10,532	EURIBOR+1.1%
Hellenic Bank	EUR	1,594	—	—	—	—	1,594	EURIBOR+1.25%
ING bank	EUR	2,728	—	—	—	—	2,728	EURIBOR+1.25%
Aspis Bank	EUR	1,269	—	—	—	—	1,269	EURIBOR+1.5%
Total USD and EUR variable debt		210,756	—	—	—	—	210,756	
ABN AMRO	CZK	14,525	—	—	—	—	14,525	PrIBOR+0.7%
HSBC	CZK	2,249	—	—	—	—	2,249	PrIBOR+0.5%
KB	CZK	1,166	—	—	—	—	1,166	PrIBOR+1.0%
KB	CZK	78	—	—	—	—	78	PrIBOR+1.0%
BAWAG	CZK	127	127	127	127	1,538	2,046	PrIBOR+2.1%
Total CZK variable debt		18,145	127	127	127	1,538	20,064	
Total variable debt		228,901	127	127	127	1,538	230,820	

We would experience an additional interest expense of approximately $2.3 million on an annual basis as a result of a hypothetical increase in the EurIBOR/PrIBOR by 1% over the current rate as of September 30, 2006. For details of our variable rate debt, see notes 17 and 18 to our interim consolidated financial statements.

As of September 30, 2006, the difference between the carrying value and the fair value of our fixed rate debt, including capital lease obligations, was immaterial. For details of our fixed rate debt, see notes 17 and 18 to our interim consolidated financial statements. The fair value of variable rate debt is equivalent to the carrying value.

Foreign Currency Risk

Our principal exchange rate risk involves changes in the value of the ruble (RUB), krona (CZK), hryvnia (UAH) and euro (EUR) relative to the U.S. dollar, as a significant part of our capital expenditures and operating and borrowing costs are denominated in U.S. dollars. Our capital expenditures, operating and borrowing costs denominated in euro are also significant, so we also bear exchange rate risk involving changes in the value of the ruble, krona, hryvnia and U.S. dollar relative to the euro.

Intracom Telecom is a party to a swap arrangement to eliminate foreign currency exposure risk and to effectively convert a syndicated loan of $121.0 million at a rate of three months LIBOR plus 1.50% to a €118.0 million loan with a rate of three months EURIBOR plus 1.59%. The terms of the swap arrangement match the terms of the underlying debt.

In March 2006, we entered into a forward arrangement to buy $40.0 million at a fixed rate of 27.8 rubles per U.S. dollar, and it was exercised in September 2006. The arrangement was used to hedge our ruble-denominated investments and accounts receivable.

Critical Accounting Policies

Critical accounting policies are those policies that require the application of management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies are those described below. For a detailed discussion of these and other accounting policies, see the consolidated financial statements.

Revenue recognition

See discussion of our revenue recognition policies in "—Revenues" above.

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

R&D costs are fully charged to the consolidated statements of operations when incurred.

Capitalization of software development costs

Costs of developing computer software products 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 we have 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.

Impairment of long-lived assets

We periodically evaluate the recoverability of the carrying amount of our 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, we compare 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, we record 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. We are not aware of any indicators of impairment occurred relating to our long-lived assets during the nine months ended September 30, 2006.

Translation methodology

We follow a translation policy in accordance with SFAS No. 52, "Foreign Currency Translation." We have determined that the functional currencies of our significant subsidiaries as of September 30, 2006 are as follows:

Telecommunication Solutions segment:	
Intracom Telecom (Greece)	EUR
Intrarom (Romania)	EUR
Strom Telecom (Czech Republic)	CZK
Tesla tech (Czech Republic)	CZK
Sitronics Telecom Solutions (Russia)	RUB
Information Technologies Solutions segment:	
Kvazar-Micro Corporation B.V. (Netherlands)	USD
Kvazar-Micro International Limited (United Kingdom)	USD
Kvazar-Micro Techno (Ukraine)	UAH
Kvazar-Micro.ru (Russia)	RUB
Microelectronic Solutions segment:	
Mikron (Russia)	RUB
VZPP-Mikron (Russia)	RUB
Smart Cards (Russia)	RUB
Consumer Electronics segment:	
Sitronics Consumer Electronics (Russia)	RUB
Sitronics Ukraine (Ukraine)	UAH
Electronics Manufacturing Services segment:	
Kvant (Russia)	RUB
Elaks (Russia)	RUB
Elion (Russia)	RUB
Concel (Russia)	RUB

We have selected the U.S. dollar as our reporting currency and have translated the financial statements of our subsidiaries with a different functional currency into U.S. dollars. 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) is recorded as a separate component of other comprehensive income (loss).

New Accounting Pronouncements

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

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

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

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

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

Trends

Although our consolidated financial statements for the three months ended December 31, 2006 are not currently available, our preliminary estimates indicate that our revenues for this period will be approximately $500 million to $600 million. This is only an estimate, however, and actual revenues for this period may materially differ from such estimate due to a variety of factors, including timing of revenue recognition, closing and audit-related adjustments, and lags or differences between management information tracked by business units and consolidated financial records.

We estimate revenues for the fourth quarter increased over the three months ended September 30, 2006, largely as a result of higher seasonal revenues for our Consumer Electronics and EMS businesses, continued growth in our Microelectronic Solutions and IT Solutions businesses and increase in sales in OSS/BSS platforms during the fourth quarter in our Telecommunications Solutions business.

We also estimate that our OIBDA margin for the fourth quarter will be higher than our OIBDA margin in the first nine months of 2006 as a result of business mix, specifically the continued growth of higher margin sales in the Microelectronic Solutions business and sales of OSS/BSS licences of OSS/BSS platforms, which usually warrant higher gross margins in our Telecommunications Solutions business.

However, our assessment of OIBDA margin for the fourth quarter is preliminary. Actual business mix, gross margins and expenses for this period may be different than we currently expect, which could negatively affect our OIBDA margin.

INDUSTRY

Macroeconomic Overview

Our major geographic markets include Russia, the CIS, Central and Eastern Europe (including Greece), with a growing presence in the Middle East and Africa. Our Telecommunications Solutions division has a broad geographical presence covering the CIS, Eastern Europe, the Middle East and Africa. Our Information Technology division is mainly focused on the Russian and Ukrainian markets and is expanding into other CIS countries. Russia is the core market for our Microelectronic Solutions, EMS and Consumer Electronics divisions.

According to Economist Intelligence Unit ("EIU") statistics, our target markets in Eastern Europe and the CIS represent a combined area of 23 million square kilometers with a population of 393 million and total GDP in 2005 of approximately $3.9 trillion (based on purchasing power parity, or PPP). GDP growth rates in 2005 in these regions varied significantly with a median of 6.0%, ranging from a low of (0.6)% to a high of 26.4%. Based on EIU forecasts, we expect these regions to enjoy further economic growth, which will be the key driver of the continued development of the telecommunications, IT, microelectronics, EMS and consumer electronics industries in these regions. According to EIU, our target markets in Eastern Europe and the CIS should achieve a median GDP real growth rate of 6.2% in 2006 and 5.0% in 2007. Following the economic liberalization in these markets over the last decade, many countries have begun to rebuild and expand their core infrastructure in areas such as telecommunications and information technologies. Nonetheless, the telecommunications, IT, microelectronics, consumer electronics and EMS industries in these regions remain underdeveloped compared to those in Western Europe and North America. Telecommunications and IT infrastructure development and upgrade projects, in both public and private sectors, continued demand for microelectronics products from the Russian government and rapidly growing consumer demand will continue to provide significant growth potential across our product and services offering in our target markets.

Although we are targeting markets in various regions, the majority of our production facilities are located in Russia, Greece, Ukraine, Romania and the Czech Republic. Therefore, the economic conditions and developments in these countries are most relevant to our operations.

	Sitronics Markets/Facilities location					Reference Markets			
2005 statistics	**Russia**	**Greece**	**Czech Republic**	**Ukraine**	**Romania**	**US**	**UK**	**Germany**	**France**
Population (million)	142.8	11.0	10.2	46.7	21.6	296.4	60.0	82.5	60.6
Real GDP growth (%)	6.4%	3.7%	6.1%	2.6%	4.1%	3.2%	1.9%	0.9%	1.2%
Average Consumer Price Index ("CPI") Year over-year (%)	12.7%	3.5%	1.9%	13.5%	9.0%	3.4%	2.0%	1.9%	1.9%
Unemployment rate (%)	7.6%	9.9%	8.9%	3.1%	5.8%	5.1%	4.7%	11.7%	9.9%
Average nominal exchange rate (Local currency per USD)	28.3	1.2	23.9	5.1	2.91	1.0	0.6	0.8	0.8
Labor cost per hour (USD)	1.68	13.7	8.6	1.2	3.23	23.6	25.4	32.7	24.6

Source: EIU

Note: Russian unemployment data does not reflect considerable underemployment.

Telecommunication Solutions Industry Overview

Global Market

Over the last two decades, the global telecommunications industry has experienced dramatic changes, driven by technological innovation, evolution of consumer demand toward higher Internet speeds and value-added services, privatization, deregulation of markets and rapid deployment of the Internet. These changes have contributed to the rapid growth of the global telecommunications equipment industry. In particular, new technologies, such as broadband wireline and wireless access, convergence between fixed-line and mobile networks and a shift to Internet Protocol (IP) based systems, are considered the key drivers of continued investment by telecommunications operators for the foreseeable future.

The development of telecommunication services around the world has not been uniform due to different degrees of technological and economic development, progress in market liberalization and industry regulation. Although telecommunication markets have experienced rapid development over the last two decades, many emerging markets still lag behind developed countries with respect to penetration rates of access lines, mobile subscribers, broadband subscribers, Internet users and regulation. The varying degree of development of telecommunication services has had a major impact on the local telecommunication equipment markets. We believe that the rapid economic growth in our key markets as well as the trend to close technological gaps and further deregulation and privatization processes will stimulate demand for telecommunication services from businesses and consumers. These factors, we believe, will generate significant demand for cost-efficient telecommunications equipment solutions. For example, IDC forecasts 2005-2009 CAGR of 9.4% for the telecommunications equipment market in Central and Eastern Europe (including Greece), 3.7% in CIS countries (including Russia) and 4.8% in the Middle East and Africa.

The telecommunications equipment industry produces telecommunications hardware and software for sale to telecommunications service providers and terminal products for sale to end-users of telecommunication services. Network hardware includes equipment that is necessary for the deployment of a network such as cables, routers, switches, testing and transmission equipment. End-user equipment includes devices that enable access to a network such as mobile phones, wired telephones, modems and home routers. Systems integrators build, partially or completely, telecommunication networks using the hardware provided by the equipment manufacturers. They also source the necessary software and integrate the hardware and software to ensure rollouts of operational networks. Most of the systems integrators also provide consulting, network maintenance support, optimization and upgrade services.

Russian, CIS, CEE and Middle Eastern and African Markets

IDC estimates the overall telecommunications equipment market relevant to us in our key markets (excluding MEA) in 2005 to be $4.6 billion, including fixed-line related spending of $85 million for NGN, $422 million for TDM, $188 million for broadband wireline and $25 million for WiMAX products, related software and services.

According to IDC, the overall demand for telecommunications equipment in our key markets is expected to grow by 5.8% during 2005-2009. A significant part of this growth will be driven by the MEA region, which is expected to grow by 39.6% in 2006, and CIS countries (excluding Russia and Ukraine), which are expected to grow by 30.3% in 2006. The second largest group in our key markets is comprised of Russia and CEE which reached approximately $1.9 billion and $1.8 billion, respectively, in 2005. The table below summarizes IDC's 2005-2009 forecast for our key markets:

	2005 (Estimate)	2006 (Forecast)	2007 (Forecast)	2008 (Forecast)	2009 (Forecast)	CAGR 2005-2009
	(in millions of U.S. dollars, except for percentages)					
CEE	1,794	1,986	2,262	2,515	2,512	8.8%
Russia	1,928	1,828	2,013	2,097	2,007	1.0%
Ukraine	436	629	604	674	640	10.1%
RoCIS	286	373	432	427	418	10.0%
Greece	170	197	232	268	305	15.7%
MEA	2,590	3,616	3,778	3,547	3,129	4.8%
Total	7,205	8,629	9,322	9,529	9,012	5.8%

The table below presents IDC's forecast of demand for OSS/BSS products in our key markets:

	2005 (Estimate)	2006 (Forecast)	2007 (Forecast)	2008 (Forecast)	2009 (Forecast)	CAGR 2005-2009
	(in millions of U.S. dollars, except for percentages)					
Russia	195	182	202	210	200	0.6%
Ukraine	65	63	71	68	63	(1.0)%
Greece	18	21	25	28	32	16.4%
RoCEE	194	220	256	287	288	10.3%
RoCIS	33	42	48	48	48	9.8%
MEA	199	217	227	234	252	6.1%
Total	705	746	829	875	883	5.8%

We consider the following trends in our markets to be important to our business.

Increasing Usage of Wireless Services

In recent years, the usage of wireless services in emerging markets has dramatically increased compared to that of wireline services due to poor fixed-line access infrastructure as well as improvement of the functionality and convenience of wireless communications services and increased affordability of these services for end-users. However, mobile penetration rates in the majority of our target markets trail those in the developed countries of Western Europe and North America, which creates potential for sustained growth. Continued rollout of wireless services, growing mobile usage and network upgrades will drive the growth of the wireless equipment sector. Potential for deployment of third generation ("3G") services provides additional growth opportunities in our key markets. Third-generation licenses are being awarded across the CEE region, but in certain countries, including Russia, telecommunications regulators continue to focus on second-generation (2G) technology, to ensure that as many people as possible have access to basic mobile services.

According to International Telecommunication Union ("ITU") statistics, specific growth drivers in Russia include low fixed-line Internet penetration rates of 15.2%, which creates an opportunity for the development of Internet access via mobile phones. The mobility that a mobile phone offers will continue to be a competitive advantage which fixed-line providers will struggle to counter. In addition, relatively low levels of average revenues per user ("ARPU"), coupled with continued growth in consumer spending levels, imply substantial room for growth in mobile usage which will require higher network capacity from mobile operators. We also expect large Russian operators to continue to look to expand outside Russia through selective acquisitions.

According to ITU statistics, the mobile penetration rate in Ukraine in 2005 was 37.0%, which was significantly lower than the Russian penetration rate of 83.6% and well below the levels in the mature Western European countries with a median of 99.7%. Additionally, according to ITU statistics, the penetration rate of fixed lines was 27.9% in Russia and 25.8% in Ukraine as of the end of 2005.

Operators are actively marketing non-messaging wireless data services to maintain ARPU

The expansion into regional markets, combined with the surge in prepaid subscriptions, has resulted in a rapid decline of ARPU in Russia. According to Analysys Research, in the early stages of the Russian mobile market development, when user penetration was very low, ARPU was extraordinarily high (*e.g.*, $230.0 per month in 1998). ARPU has since declined to levels well below those of most European countries, falling by 30%, to $8 per month in 2005, compared with a Western European average of $39 and a Central and Eastern European average of $14. Both prepaid and contract ARPU are declining. Prepaid ARPU fell from $8 to $3.5 per month in 2005, while contract ARPU fell from $23 to $21. Operators have increasingly focused on non-messaging data services to reverse the ARPU decline. We believe that the proliferation of new services will contribute to the demand for new network equipment and software.

Increasing Demand for OSS/BSS from mobile and fixed-line operators

The maturing mobile market in Russia and CEE has forced operators to change their strategy from focusing on increasing the number of subscribers to concentrating more on retaining subscribers by enhancing their loyalty through providing better support and customer service and improving billing quality. In addition, the growing competition from mobile telephony and relatively outdated services forced state-owned traditional fixed-line operators in Russia to pay increasing attention to customer service as well as to timely and convenient billing. These factors have resulted in increased demand for OSS/BSS type of products during the last several years. While the demand in Russia for such software products is reaching a saturation point, certain emerging markets including other CIS countries and countries in the Middle East and Africa are expected to grow.

Increasing Usage of Broadband Services

There has been an increased growth in data services as compared to traditional voice services globally, especially in developed countries in Western Europe and North America. According to Analysys Research, in December 2004, broadband penetration (as a percentage of the population) was 12.2% in the United States and 11.3% in Western Europe and has increased in June 2006 to 17.0% and 19.3%, respectively. As of June 2006, broadband penetration rates reached 2.0% in Russia, 0.1% in Ukraine, 2.8% in Greece and 7.5% in the Czech Republic. We believe that the general increase in Internet use and access to a variety of bandwidth-intensive services and applications, including online gaming and video streaming, as well as the increased proliferation of VoIP, will create demand for improved bandwidth and will drive broadband penetration rates in coming years.

Transition to Converged NGNs

The advancement of IP-routing protocols, such as MPLS, has enabled operators to offer various services over a single all-IP network. This, coupled with the low cost of IP-equipment, implies that, over time, the most cost-effective form of network will be a multiple service IP-platform. As a result, the telecommunications markets are in the process of transitioning from separate networks to converged next generation networks, which can simultaneously support wireline and wireless access to any combination of voice, data and video communications services. Softswitches and related systems are expected to play an important role in this transition. IMS (IP Multimedia Subsystem) bridges a public switched telephone network, a mobile network and an IP network. IMS increases the functionality of a packet-switched network by supporting IP-based applications and services through the SIP protocol and provides a unified architecture that supports a wide range of IP-based services over both packet and circuit-switched networks and employs different wireless and fixed access technologies.

Increasing demand for alternative wireless technologies such as WiMAX

The general underinvestment in fixed-line access infrastructure in our key markets creates a considerable opportunity for the deployment of new wireless broadband technologies such as WiMAX. There has been recent interest in countries such as the Czech Republic and Slovakia for alternative wireless broadband technologies. For example, T-Mobile in the Czech Republic launched "Internet 4G," a wireless broadband service based on UMTS technology used predominantly as an xDSL fill-in product. The WiMAX market is also expected to experience strong growth as it is deployed in wireless backhaul solution configuration to address the growing requirement for data backhaul in cellular and WiFi networks.

Information Technologies Industry Overview

Global Market

Accelerating development of new business models, globalization, changes in the world's competitive landscape and rapid upgrade of technologies are the main growth drivers of the global IT sector. The improvement in global economic growth that continued during 2005 resulted in an increase in worldwide IT spending toward the end of 2005 and in early 2006. Although many businesses are still focused on internal efficiency improvements and cost reductions, investments in innovation are more widespread than in recent years. However, strong pressure on IT budgets persists, and the tendency to tightly control IT capital spending and to reduce IT operating costs will continue in the future.

Future growth of the IT market depends on continued global economic growth. Continued investment in IT services also depends on decision makers' confidence in the value of IT and in the return on such investment.

The table below shows IDC forecasts for the IT market globally:

	2005 (Estimate)	2006 (Forecast)	2007 (Forecast)	2008 (Forecast)	2009 (Forecast)	2010 (Forecast)	CAGR 2006-2010
	(in billions of U.S. dollars, except for percentages)						
Hardware	424	457	489	519	541	564	5.4%
Software	225	243	262	282	303	326	7.6%
IT services	446	472	500	530	561	592	5.8%
Total	1,095	1,172	1,251	1,331	1,405	1,481	6.0%

The IT sector is divided into three broad segments—Hardware, Software and IT services.

Hardware

This category includes systems (personal computers and servers), storage, peripherals and networking equipment. The market value figure relates to end-user spending on hardware. Following a period of decline at the beginning of the decade due to periods of recession in parts of Europe and Asia Pacific, the global computer hardware market is expected to experience stable growth rates. This growth will be driven by the increasing use of the Internet to sell hardware, the modernization of computer systems and the increasing computerization of the healthcare and education sectors. The global hardware segment is expected to grow by 7.6% in 2006.

Software

The market dynamics of the software segment continues to change rapidly because of the shift toward open source systems and applications. The increasing adoption of open source applications is likely to affect the growth of various closed-source legacy applications and software while growth in this segment will occur in server management, operating systems and office productivity applications. In addition, growing volumes of information and related security concerns are driving the demand for various security, data and records management applications. According to IDC, the global software segment is expected to grow by 7.8% in 2006.

IT services

IT services is a broad market segment which entails delivery of IT related services to companies and government organizations and includes outsourcing, managed services, business consulting, installation of hardware and software, IT support and education and systems integration. According to IDC, the worldwide IT services market is expected to grow by 5.9% in 2006.

Russian, CIS and Central and Eastern European Markets

IT spending in the CEE region and Russia, in particular, remains largely oriented toward hardware (PCs) and IT services which, respectively, represented 62% (PCs 34%) and 24% of the total CEE market in 2005. Nonetheless, markets across the region are slowly shifting into a second, solution-driven phase of development. This shift is determined by economic growth, a greater inflow of foreign direct investments, ongoing structural reforms and privatization, the emergence of a strong private sector, rising domestic consumption and European Union ("EU") accession of several countries. IT spending in emerging markets is primarily focused on hardware upgrades and software installations due to a relatively low quality of infrastructure and growing demand for efficiency enhancements and improved business management processes. According to IDC, out of all three segments in Central and Eastern Europe, the IT services segment is expected to experience the highest 2006-2010 CAGR of approximately 17%, with software reaching approximately 14% and hardware approximately 12%. The total IT market is expected to reach around $59 billion by 2010, with hardware reaching $35 billion, IT services $16 billion and software $8 billion.

The table below shows IDC forecast for the CEE IT market:

	2005 (Estimate)	2006 (Forecast)	2007 (Forecast)	2008 (Forecast)	2009 (Forecast)	2010 (Forecast)	CAGR 2006-2010
	(in billions of U.S. dollars, except for percentages)						
Hardware	19.4	22.3	24.9	28.0	31.4	35.1	12.0%
Software	4.4	5.1	5.8	6.6	7.5	8.5	13.8%
IT services	7.3	8.5	9.9	11.7	13.7	16.1	17.2%
Total	31.1	35.9	40.6	46.3	52.7	59.6	13.6%

The Western European IT market is much more services and software oriented. While we expect our key markets to evolve similarly in the coming years, hardware will likely remain the major segment of the IT market. Compared to Western Europe, the Central and Eastern European IT services market is immature. Central and Eastern Europe will outpace Western Europe in IT services market growth with projected growth rates of 17.2% (2006-2010 CAGR) versus 5% in Western Europe, according to IDC. Russia, Poland, the Czech Republic and Hungary are the largest IT services markets in the region and together accounted for approximately two thirds of the market in 2005. A significant driver of IT services growth is the accession of many countries into the EU. Although Russia is not expected to join EU in the near future, its IT services market is expected to be the fastest growing in the region with growth rates of 17.8% between 2006 and 2010 according to IDC, primarily due to strong growth of the PCs segment (from $5 billion in 2005 to $10.9 billion in 2010, representing 17.1% CAGR).

The table below shows IDC forecast for the IT market in Russia

	2005 (Estimate)	2006 (Forecast)	2007 (Forecast)	2008 (Forecast)	2009 (Forecast)	2010 (Forecast)	CAGR 2006-2010
	(in billions of U.S. dollars, except for percentages)						
Hardware	8.2	9.8	11.2	12.8	14.9	17.2	15.2%
Software	1.3	1.5	1.8	2.2	2.6	3.0	19.2%
IT services	2.3	2.9	3.7	4.7	5.8	7.1	24.7%
Total	11.8	14.3	16.7	19.7	23.4	27.5	17.8%

Hardware

The Central and Eastern European hardware segment is expected to grow by 15.3% in 2006. While developed countries are undergoing hardware technological upgrades, the growth in our key markets is expected to accelerate significantly due to a low level of IT systems (personal and business) penetration and improved spending power of consumers. IDC expects the hardware segment to achieve a 2006-2010 CAGR of 12.0% in Central and Eastern European markets and 5.4% worldwide.

Software

The software segment in Central and Eastern Europe is expected to reach $5 billion in 2006, representing a 14.7% growth rate over 2005. By the end of 2010, the software segment in Central and Eastern Europe is expected to achieve a value of approximately $8 billion resulting in 2006-2010 CAGR of 13.8%. This represents a significantly different growth profile in comparison to developed markets of Western Europe and North America, which are expected to grow 6.9% and 8.0% in 2006, respectively, and are expected to achieve 2006-2010 CAGRs of 6.8% and 7.7%, respectively.

IT Services

Central and Eastern European IT services market reached a value of $7.3 billion in 2005 and is expected to grow to $8.5 billion in 2006, representing a 16.5% growth rate. IDC expects the Russian IT services market to achieve 2006-2010 CAGR of 24.7% as compared to a 17.2% 2006-2010 CAGR for the Central and Eastern European region.

Semiconductor Industry Overview

Global Market

Semiconductors are the key components in the development and production of electronic products and systems. Semiconductors perform a variety of functions such as processing data, storing information, converting and controlling signals. With advances in semiconductor technology, the functionality and performance of semiconductors has increased, while their size, weight, power requirements and cost per unit have decreased. According to Gartner's estimates, the global consumption of semiconductor products grew from $155.6 billion in 2002 to $235 billion in 2005, representing a CAGR of 14.7%. The semiconductor market is expected to continue growing over the long term, although at a lower pace as compared to historical levels. Gartner estimates that the global demand for semiconductors will reach $321 billion in 2010, representing a 2005-2010 CAGR of 6.4%.

Historically, demand from the Asia Pacific market was the main growth driver of the global semiconductor market. Asian consumption of semiconductor products grew from $67.1 billion in 2002 to $119.0 billion in 2005, representing a CAGR of 21.0%. Gartner expects that the Asia Pacific region will continue to drive the growth in the semiconductor industry in the medium term with 2010 revenues expected to reach $186.4 billion, representing a 2005-2010 CAGR of 9.4%. This dynamic will be supported by the general trend of increasing outsourcing of semiconductor production by the global players to third parties with lower cost bases in Asia. Due to the strong growth potential, we consider the Asian markets, mainly China and Taiwan, to be our primary export locations. Lower production costs and proximity to customers have driven our strategy to localize our export assembling facilities.

A semiconductor's performance for a given application depends on the process technology used in its production. One of the most upgraded and widely used process technologies, which is currently at an implementation stage at our microelectronic production facilities, is 0.13-0.18 micron EEPROM technology. The next generation feature size which global leaders have begun to implement is 0.09 micron technology.

Currently, the export operations of our Microelectronic Solutions division focus on power management integrated circuits based on bipolar technology and 0.8 micron in size. While the market share of devices based on the bipolar technology is expected to decline, the use of new technology and the size of 0.13-0.18 micron will, we believe, improve our product line and allow us to grow along with the rest of the Asian market. According to Gartner, the Asian discrete devices market is expected to exhibit an 8.4% CAGR in 2005-2010.

The main distinctive feature of the global semiconductor market is its substantial cyclicality which is mainly driven by the rapid shifts in demand for more technologically advanced end-user products that are based on semiconductors and fluctuations in the semiconductors manufacturing capacity. Due to the capital-intensive nature and the need to make commitments for equipment purchases well in advance, the semiconductor industry is generally slow in reacting to the rapidly changing demand.

Russian Market

During the Soviet era, the microelectronic industry was one of the key priorities of the government. Priority was placed on building strong microelectronics research and development capabilities and creating a large pool of highly qualified semiconductor design engineers.

In the 1990s, the industry collapsed due to the overall economic downturn in the CIS region, political instability, lack of interest from the newly established private sector and general underinvestment in the sector by the Russian government. This trend has gradually begun to reverse itself over the last several years and has been driven by the continued growth of the Russian economy, including both industrial output and consumer spending and increased government spending on social and military related programs.

According to the Electronics Publishing House, the Russian semiconductor market grew at a 23.7% CAGR from $0.4 billion in 2002 to $0.8 billion in 2005 and is expected to grow at a CAGR of 25.4% in 2006-2010.

Specific growth drivers within the industry include: (1) increasing demand for commercial semiconductor applications, mainly from the manufacturing and telecommunications industries, and (2) increasing demand from the Russian government in the aerospace and military sectors as well as social projects. In 2005, the bulk of the semiconductor demand was generated in manufacturing (23.0%), communications (21.9%), defense (15.0%), automotive (11.0%) and security systems (9%), according to the Electronics Publishing House.

While industries funded by the government, such as military and aerospace, have historically required less complicated and technologically advanced semiconductors as compared to commercial industries, with primary demand being general purpose discrete devices and sensors, this situation has gradually changed with the growing demand for advanced semiconductor products.

The production for the majority of the government funded social projects is dominated by domestic manufacturers since international companies are not allowed to participate in such projects due to security and political reasons. The military and aerospace industries are also mainly served by the local producers although advanced semiconductor products are still largely imported. The domestic market is also characterized by relatively low competition between the domestic producers because few Russian producers have been able to recover after the downturn in the industry during the "Perestroyka" years.

In October 2006, the Russian government has approved the strategy for the "Development of the Electronic Components and Semiconductor Industry" for 2007-2011. According to this strategy, the Russian government is planning to invest up to $865 million into the development of domestic semiconductor industry to increase its competitiveness in the global marketplace.

In line with global trends, one of the most rapidly growing segments of the Russian semiconductor market is application-specific ICs, mainly for production of mobile SIM cards and, increasingly, banking cards, transportation cards and special purpose smart cards such as e-passports.

Commercial semiconductor products, including those for consumer electronics and telecommunications, are currently mostly supplied by international manufacturers as the majority of domestic producers lack modern technologies including those able to produce 0.13-0.18 micron chips. As a result, imports accounted for 88% of the total semiconductor market in Russia in 2005, with the rest accounted for by domestic production, according to Electronics Publishing House. The relatively low share of domestic production in total semiconductor consumption in Russia and cost advantages of domestic production suggest that those domestic producers who will be able to upgrade their production facilities may be able to capture additional market share from international vendors.

As the domestic producers seek to improve their facilities, they are increasingly looking toward partnerships with established industry leaders to benefit from their technological know-how given the substantial research and development costs in the industry. Partnership projects launched by us with such industry leaders as Infineon, STMicroelectronics and Giesecke & Devrient are examples of this trend.

Smart card market in Russia

Over the last decade, the Russian smart card market showed strong performance, with mobile communications being the largest market for microprocessor cards in Russia as a result of the high level of mobile subscribers growth and relatively high customer churn rates which have driven up mobile phone subscriptions. The second largest market for smart cards in Russia is the banking sector. The recent rapid development of the banking sector resulted in the expansion of cashless payment systems and a corresponding significant increase in the number of debit cards. Current low penetration of banking cards in Russia, further development of retail banking products and proliferation of cashless payment culture represent a substantial growth potential for this market in the future.

In addition, underdeveloped social infrastructure, coupled with globalization, fueled increased government demand for different types of IDs, including e-passports. For instance, in 2005 the Russian government launched a national biometric passport project, aimed at increasing the efficiency of administrative processes, reducing forgery and improving national security. A pilot project for the biometric foreign passports was launched in the Kaliningrad region of Russia in November 2005. Transportation access is another prospective area for chip cards applications in Russia.

While historically the smart card market in Russia has been dominated by international players such as Axalto, Oberthur and Giesecke & Devrient, the upgrade of production technologies by the Russian producers is likely to increase the market share of domestic suppliers.

Consumer Electronics Industry Overview

Global Market

During the last decade, the global consumer electronics market has entered a period of significant technological change primarily in the areas of digital and display technologies, products convergence and customized innovative product offerings and has experienced declining prices driven by the concentration of consumer electronics production in low-cost and efficient Asian locations. In 2005, the global consumer electronics market reached $162.9 billion, demonstrating CAGR of 6.2% for 2001-2005 and was driven by new technologies, favorable consumer spending dynamics and availability of consumer loans at attractive terms. According to Datamonitor, the global consumer electronics market is estimated to grow at a CAGR of 4.2% in 2005-2010.

Russian Market

The consumer electronics market comprises the following segments: video devices (including CRT and flat-panel television sets, video tape and DVD players and recorders, camcorders, digital cameras, and set-top boxes), audio devices (hi-fi systems, audio tape, CD, Minidisc and MP3 recorders and players, personal stereos and radios) and game consoles. This market does not include mobile devices.

The consumer electronics market in Russia grew at a 6.3% CAGR in 2001-2005 and reached $3.9 billion in 2005, mainly driven by continued growth in consumer spending in Russia, redistribution of the consumer basket from staple commodities toward high technology and more expensive consumer products and services, combined with increased availability of consumer credit. According to Datamonitor, the total revenues of the consumer electronics market in Russia are expected to grow by a 5.3% CAGR in 2005-2010.

The Russian consumer electronics market is highly competitive. The high-end segment is mostly dominated by leading international manufacturers and in this segment perceived high quality and brand recognition are the most important features for consumers. In the medium price segment, key competitive factors are price, quality, functionality and brand recognition. Competition in the low-end segment is higher than in other segments due to substantial saturation of the market and constant entry of new participants, predominantly Asian OEMs.

As rapid changes in technology shorten product life cycles and consumer electronic products commoditize, product design becomes an important tool for product differentiation. It is expected that domestic consumer electronics producers will start to gradually move from the OEM business model to an Original Design Manufacturer ("ODM") business model. The first market participants that change their business model are likely to either establish or strengthen their local brand recognition and capture a substantial share of the domestic market. Given that competition is a function of both quality and price and given that prices for standardized consumer electronics are declining, custom design is likely to allow ODMs to set higher than average prices and enjoy on average a lower price decline for their product mix.

Given the vast geography of Russia, the distribution capabilities of domestic players, including good relations with distributors, efficient logistics and pricing power, have been key success factors in the Russian consumer electronics industry, especially in the low and medium priced segments. In recent years, retail distribution of consumer products in Russia has undergone significant changes and retail distribution channels have been developing rapidly. The current consumer electronics distribution landscape is characterized by an increasing role of specialized outlets and hypermarkets as well as new distribution channels such as the Internet.

Specialized outlets such as M.Video, Eldorado, Technosila and Mir have significantly increased their market share in consumer electronics distribution and have increased sales of products under own brand names. In general, the rapid development of distribution channels has made electronics products more accessible for consumers and stimulated the overall growth of the consumer electronics market.

The following trends in the Russian consumer electronics market, which we view as important to our business, are expected over the next few years:

- Gradual replacement of OEMs by market participants that employ the ODM business model;
- Shift toward quality names, coupled with proliferation of local brands;
- Localization of international producers (*e.g.*, building production facilities in Russia);
- Move to more advanced products (*e.g.*, digitalization of consumer electronics products);
- Move to bundled technologies (*e.g.*, multimedia players, handsets with MP3 players); and
- Enhancement of distribution channels and further proliferation of convenient retail formats (*e.g.*, e-commerce, specialized retail chains).

The Russian consumer electronics market consists of a number of segments. A description of those most relevant to our business segments is presented below.

Televisions

The TV market is expected to remain one of the largest and most dynamic segments of the Russian consumer electronics market. This segment can be broadly divided into two main categories: CRT television sets and LCD television sets.

The market for CRT television sets is close to the end of its life-cycle. However, as 'A' brand companies abandon the market, 'B' brands have additional room to increase market share. In contrast to the CRT segment, the LCD segment is one of the fastest growing in Russia. This segment is dominated by 'A' brands. Although each year more brands enter the market, competition remains relatively low. Low competition and steady consumer demand result in relatively high profit margins which, in turn, attract new international and local players.

DVD Players

The market for DVD players in Russia showed an impressive increase in 2000-2005 and reached an estimated volume of 1.8 million units in 2005, according to Snapshots International. One of the drivers of this growth was the replacement of video cassette recorders. The DVD player segment was one of the fastest growing segments of the consumer electronics market in Russia in 2005, demonstrating an estimated year-on-year growth rate of 25%. By 2009, the volume of DVD players sold in Russia is projected to reach 3.2 million units.

Currently, the DVD segment is dominated by 'A' brands with brand name and product quality being the key considerations influencing consumers' buying behavior. Concurrently, 'B' brands such as BBK, Hyundai and Rolsen as well as Sitronics have been able to penetrate this market.

Portable Electronics

This segment encompasses form factor hard disk and flash drive music players, portable DVD players, portable television sets and other portable electronics products. This market segment is characterized by rapid technological changes and relatively high margins on the majority of products. The technical characteristics of products and product design typically outweigh consumers' brand preferences and price.

Hi-End Audio Products

The high-end audio electronics market has entered the mature stage of its development. While growing at a low pace, high-end audio products yield substantial profit margins and allow companies to position brands more favorably, which makes this segment attractive for new niche players.

Handsets

The growth in the Russian mobile devices market substantially outpaced the majority of other consumer electronic markets over the last several years due to the dramatic increase in mobile penetration in Russia. In 2005, the Russian market for mobile devices grew by 27% year-on-year and reached approximately $5.7 billion. Although the mobile market in Russia has reached its saturation point with mobile penetration of approximately 101% in September 2006, according to AC&M Consulting, the growth in mobile devices market is likely to continue, albeit at a slower pace, driven by new design and functionality of mobile phones. According to the independent research agency "Sotovik," the mobile devices market is expected to reach $8.7 billion by 2008, representing a 15.4% CAGR in 2005-2008.

This market is dominated by several 'A' brands as brand name, quality, new features and constant upgrades to product range and design are the key factors considered by consumers.

Electronic Manufacturing Services Industry Overview

Global Market

At the beginning of the decade, the global economic slowdown severely affected the global electronic manufacturing services ("EMS") market, particularly in the developed markets of the United States and Japan. The market has recovered in the last three years and was worth $218 billion in revenues in 2005. The market consists of Electronic Manufacturing Services firms and Original Design Manufacturing ("ODM") firms that design, test, manufacture, distribute and provide post-sales services for electronic components for computer and electronics companies on a contract basis for the Original Equipment Manufacturer ("OEM") market.

During the 1990s, the electronics industry underwent a shift from being a localized to a globalized industry. This was accompanied by the decoupling of manufacturing from product development and dispersal of these functions across corporate and national boundaries. This led businesses to focus on reducing costs of integrated supply chains through outsourcing, relocation to low cost sites, reduction in number of suppliers and introduction of common standards to improve design flexibility, time to market and breadth of product range available on a global basis. There has been an additional major trend to shift from expensive to lower-cost regions, but also to locate closer to the main markets in order to achieve flexibility.

Most OEM companies do not rely on a single provider for their outsourcing. According to Gartner, the top 10 OEMs mention 25 different companies that they consider as major outsourcing partners. As a result, EMS companies maintain worldwide manufacturing locations and broad electronics product manufacturing capabilities. This allows them to act as the manufacturing arm of any

OEM in any region. However, most large international EMS players do not have significant operations in Russia. Of the international players, only Elcoteq has a significant presence in Russia, which we consider to be our main market.

The global electronic manufacturing services market is set to continue to exhibit strong growth over the next five years as the global economy continues its recovery, particularly in Europe, where several of its most influential markets, including France and Germany, are expected to emerge from their recent economic slowdowns. In addition, growth is driven by OEMs' need for increased flexibility to respond to rapidly changing markets and technologies and accelerating product life cycles, and their need for advanced manufacturing and engineering capabilities as a result of increased complexity and reduced size of electronics products. By 2010, the EMS market is expected to reach a value of $383.0 billion, with an expected CAGR of 11.9% over the five year period between 2005 and 2010. Consumer electronics is the segment that Gartner predicts will drive this growth, going from $36 billion in 2006 to $82 billion in 2010, representing a 22% CAGR.

To stay competitive, EMS providers will have to meet such basic industry requirements as low cost, strong technological capabilities, flexibility, short delivery cycles, strategic locations of facilities, high product quality and a wide range of services available.

Russian and CIS Market

Our EMS division targets IT, telecommunications and consumer electronics companies in Russia and other CIS and European markets. Local Russian players currently experience limited competition from the global players. Our EMS division currently focuses on production of LCD monitors and desktops. In 2007, the product portfolio is expected to be diversified into notebooks, mobile phones and LCD television sets. Russia is considered an excellent location for EMS companies due to its low manufacturing costs in comparison to EU production locations and low logistics costs compared to Chinese production locations. Russia offers proximity to major European markets and a significant and rapidly growing domestic market for consumer goods. It also provides EMS companies with access to a highly skilled and cost efficient employee pool, a key consideration in the EMS context given the labor intensive nature of the industry.

BUSINESS

Overview

We are a leading provider of telecommunication solutions, including software, equipment and systems integration, IT solutions and microelectronic solutions in Russia and the Commonwealth of Independent States ("CIS"). With the recent acquisition of Intracom Telecom in Greece, we have a strong presence in Eastern Europe and a growing presence in the Middle East and Africa. We are headquartered in Russia and offer a broad range of products in key technology growth areas in our markets. We believe we are particularly well-positioned to exploit fast-growing markets in CIS, Eastern Europe, Middle East and Africa ("EEMEA") as well as Central and Eastern Europe ("CEE"). We serve over 3,500 clients, maintain offices in 25 countries and export our products and services to more than 60 countries. We operate through the following five business divisions:

- **Telecommunication Solutions** develops and manufactures equipment for telecommunication networks, develops software programs to manage the delivery of telecommunication services by operators and provides integration services. This division is comprised of two units, Strom Telecom based in Prague, the Czech Republic and Intracom Telecom based in Athens, Greece. This division accounted for 48.0% of our revenues for the nine months ended September 30, 2006.

- **IT Solutions** is a leading provider of systems integration and IT related services and a leading distributor of computer components and software in the CIS. This division is comprised of Kvazar-Micro based in Kiev, Ukraine. This division accounted for 33.1% of our revenues for the nine months ended September 30, 2006.

- **Microelectronic Solutions** is Russia's leading domestic manufacturer and exporter of integrated circuits ("ICs") and smart cards with advanced IC fabrication technology. This division is mainly comprised of Mikron based in Zelenograd, Russia, considered to be the "Silicon Valley" of the former USSR. This division accounted for 7.4% of our revenues for the nine months ended September 30, 2006.

- **Consumer Electronics** offers audio-video products and portable electronics devices through a distribution network of 170 dealers across Russia and Ukraine under the "Sitronics" brand and other brands. This division accounted for 8.4% of our revenues for the nine months ended September 30, 2006.

- **Electronics Manufacturing Services** provides electronics manufacturing services primarily to multinational companies that operate in the CIS. The division includes three integrated production facilities in Zelenograd, Russia. This division accounted for 3.0% of our revenues for the nine months ended September 30, 2006.

The following table shows our revenues, key subsidiaries and principal products by division.

SITRONICS

	Telecommunication Solutions	**IT Solutions**	**Microelectronic Solutions**	**Consumer Electronics**	**EMS**
Revenues for Nine Months ended September 30, 2006	■ $503.9 million	■ $347.7 million	■ $78.0 million	■ $88.2 million	■ $32.0 million
Percentage of Total Revenues	■ 48.0%	■ 33.1%	■ 7.4%	■ 8.4%	■ 3.0%
Key Subsidiaries	■ Strom Telecom (100%) ■ Intracom Telecom (51%) ■ Sitronics Telecom Solutions (100%)	■ Kvazar-Micro (51%)	■ Mikron (77%) ■ VZPP-Mikron (97%) ■ Smart Cards (65%)	■ Sitronics (100%)	■ Kvant (78%) ■ Elaks (84%) ■ Elion (75%) ■ Concel (100%)
Major Products and Services	■ Network solutions / Content delivery ■ Access / Transmission ■ BSS/OSS ■ Outsourcing ■ Professional services	■ Systems integration and IT related services ■ Distribution of computer components and software	■ Integrated Circuit Manufacturing ■ Smart Card Production	■ Audio/Video Equipment ■ Portable Electronics	■ Electronics Manufacturing Service

We have experienced significant organic growth and have a track record of successful acquisitions and post-acquisition integration, including the acquisitions of Strom Telecom in our Telecommunication Solutions business and Kvazar-Micro in our IT Solutions business. We are well-positioned to benefit from the significant expected growth in the Russian and CIS technology markets and economies. To offer our customers quality products and services, we strive to constantly improve our production capabilities and the quality of our product portfolio, and we are moving to higher value-added products and services across all of our operations. Our research and development capabilities and the experience obtained from undertaking large-scale projects gives us additional leverage to attract new customers and to expand into markets such as the Middle East, Southeast Asia and North Africa.

Our main competitive advantages include strong technological know-how, the favorable geographical location of our production facilities that allow for low production and logistics costs, a high-quality labor force, production flexibility, good knowledge of the local markets and support from the Russian government in developing the domestic technology sector. In addition to these competitive advantages, our strong position in the regions in which we operate has enabled us to establish long-term partnerships with industry leaders such as Cisco Systems, Motorola, Oracle, IBM, Intel, Siemens, Giesecke & Devrient ("G&D"), STMicroelectronics, Infineon and Proview.

We have manufacturing facilities in the cities of Zelenograd and Voronezh in Russia, Votice in the Czech Republic, Bucharest in Romania and Kiev in Ukraine and also have offices and research and design centers in Russia, Ukraine, the Czech Republic and Greece. We started our business in the city of Zelenograd in the Moscow region, the technology capital and "Silicon Valley" of the former USSR, and we strive to carry forward Zelenograd's tradition of excellence in research and development. We have approximately 4,600 employees involved in research and development activities and our portfolio of products developed in-house is expanding, including a suite of integrated solutions for next generation mobile networks, an end-to-end solution for content delivery networks and a complete line of equipment for point-to-point and point-to-multipoint broadband wireless communications. Our research and development has resulted in new techniques and technologies that we have patented such as a low-latency communication technique for multi-hop WiMAX communications.

We have an experienced management team with an average of 11 years of experience in the technology industry. The majority of our top managers has degrees from leading international business schools and has experience working for international companies outside of Russia or serving as consultants to international companies doing business in Russia.

Our revenues were $952.6 million and $1,049.8 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. Our operating income was $142.2 million and $79.5 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively.

Relationship with Sistema

We are a subsidiary of Sistema, the largest private sector consumer services company in the CIS with over 70 million customers. Founded in 1993, Sistema develops and manages market-leading businesses in fast-growing service-based industries, including telecommunications (through Mobile TeleSystems ("MTS"), Ukrainian Mobile Communications ("UMC"), Comstar United TeleSystems ("Comstar"), and Moscow City Telephone Network ("MGTS")), technology (through Sitronics), insurance (through Rosno), banking (through Moscow Bank for Reconstruction and Development), real estate (through Sistema-Hals), retail (through Detsky Mir) and media (through Sistema Mass-media).

The Sistema group is also our largest customer. The continued development of our business with the Sistema group companies is an important part of Sistema's overall strategy of realizing intra-group synergies. Our total sales to the Sistema group amounted to $310.0 million and $246.5 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively, which represented 32.5% and 23.5%, respectively, of our consolidated revenues in those periods. In particular, we supply telecommunications solutions services and products to Sistema's telecommunications businesses. For the year ended December 31, 2005 and the nine months ended September 30, 2006, our Telecommunication Solutions segment's sales to the Sistema group amounted to $228.0 million and $180.6 million, respectively, which represented 92.4% and 35.8% of the segment's total revenues, and 23.9% and 17.2% of our consolidated revenues, respectively. We also supply IT solutions services and products to Sistema group companies. For the year ended December 31, 2005 and the nine months ended September 30, 2006, our IT Solutions segment's sales to the Sistema group amounted to $68.7 million and $41.0 million, respectively, which represented 14.7% and 11.8% of the segment's total revenues, and 7.2% and 3.9% of our consolidated revenues, respectively.

Our telecommunications solutions customers within the Sistema group include MTS, the largest mobile phone operator in Russia and the CIS, UMC, a subsidiary of MTS and a leading mobile phone operator in Ukraine, Comstar, a leading provider of alternative fixed line telecommunication services in Russia, and MGTS, a subsidiary of Comstar and the incumbent PSTN operator in Moscow. In particular, we have recently supplied BSS/OSS and NGN switching solutions to these companies. As part of our business development and customer service activities, we periodically discuss future orders with our customers, including the Sistema group companies. Based on the discussions with customers within the Sistema group, we estimate that Sistema group purchases of our products and services will be approximately $450 million to $650 million for 2007. We cannot assure you that such purchases would materialize in a timely fashion or at all. In particular, as public companies, these Sistema group companies have detailed policies and procedures relating to purchases, including for 2006, and requirements to conduct public tenders. We may not be selected through these public tenders. In addition, we cannot assure you that these companies will remain part of the Sistema group in the future.

History and Key Milestones

The group's business was established upon the acquisition by Sistema of Russian semiconductor and industrial electronics assets, through a combination of privatization and private transactions from 1994 to 1998.

In December 2002, Sistema, NED Electronic and certain individuals, including Gennady Krasnikov, the head of our Microelectronic Solutions division, contributed their shareholdings in Mikron, Strom Telecom and certain other Russian entities to a newly formed holding company JSC "CSC," in exchange for all the issued shares of JSC "CSC." In particular, Sistema contributed a 62.4% interest in Mikron and NED Electronic contributed 100% of Strom Telecom.

JSC "CSC" changed its name to JSC "Concern Scientific Center" in June 2005 and to JSC "Concern SITRONICS" in November 2005. In July 2006, we changed our name to JSC SITRONICS.

In 2003-2004, certain of the individual shareholders of Sitronics sold their shares in Sitronics to Laminea, a company which Sistema consolidates in its U.S. GAAP financial statements pursuant to

FIN 46R. In 2005-2006, Sistema and its subsidiary Ecu Gest subscribed for a new issuance of Sitronics shares, increasing the Sistema group's ownership in Sitronics. In September 2006, EBRD subscribed for a new issuance of Sitronics shares, in an amount equal to 3.67% of our shares. See "Principal and Selling Shareholders."

An overview of our key milestones is provided in the table below.

Date	Milestone
December 2002	• Establishment of JSC "CSC" and contribution of Mikron and Strom Telecom • "Sitronics" consumer electronics brand launched
July 2004	• Acquisition of 51% of Kvazar-Micro
May 2005	• Shareholding in Kvant increased to 78%
June 2005	• Establishment of joint venture with G&D to produce smart cards
November 2005	• "Sitronics" corporate name adopted
June 2006	• Acquisition of 51% of Intracom Telecom

Since 2002, we have focused on expanding our market presence through acquisitions. For each potential acquisition, we strive to identify assets that, upon successful integration into our business, will expand the geography of our operations, enlarge our product offerings and enhance our technological know-how and expertise.

In December 2002, Strom Telecom, a Czech telecommunications equipment and software manufacturer, became a part of our group. The addition of Strom Telecom (1) enabled us to enter the telecommunication solutions market at a time when Russian mobile penetration growth began to increase significantly and (2) provided us with a solid platform for further expansion in this market due to its excellent research and development capacity and product range.

In July 2004, Sistema acquired a 51% interest in Kvazar-Micro, a Ukrainian information technology and systems integration company that was well-established in Ukraine. We controlled the operations of Kvazar-Micro from the date of its acquisition by Sistema and in October 2005, we purchased Sistema's stake in Kvazar-Micro. Through this acquisition and our knowledge of the Russian market, we expanded Kvazar-Micro's operations into the developing IT markets in Russia and in other Eastern European countries.

In June 2006, we acquired a 51% interest in Intracom Telecom, a leading Greek telecommunication solutions provider and a major technology player in Eastern Europe, the Middle East and Africa with market presence in Western Europe and the United States. Through this acquisition, we gained access to new markets, such as Southern Europe and the Middle East as well as extensive research and development capacity and new technology.

Competitive Strengths

We are a leading diversified technology company in our core markets and are well-positioned to capitalize on the strong growth potential in the large and rapidly developing markets where we operate, including Russia and the CIS, Central and Eastern Europe and Middle East and Africa

We operate in markets which are among the fastest-growing technology markets in the world. Significant technology growth in these markets is expected to continue as a result of strong underlying economic growth and significant government and private sector investment in infrastructure improvements. We believe that the relatively undeveloped state of the technology industry in these markets in comparison to more mature markets provide revenue opportunities without the need for high market penetration levels. We are well-positioned to take advantage of these opportunities as a result of our established presence in many of these markets and our research and development, production and distribution capabilities. We have significant operations in Russia and other CIS countries, Central and Eastern Europe, the Balkans, Greece and Romania, and additional sales and marketing offices in Bulgaria, Serbia, Albania, Cyprus, Libya, Saudi Arabia, United Arab Emirates and Malaysia. Our favorable regional presence serves as an ideal base for expansion into other countries in our target regions. In addition, we believe that our knowledge of and proximity to these markets, our familiarity with the languages and cultures of these regions, and our strong relationships with local customers give us an advantage over international competitors.

We possess an excellent understanding of our home markets

The long and established operating histories of our key subsidiaries, including Strom Telecom in the Czech Republic, Intracom Telecom in Greece, Kvazar-Micro in Ukraine and Mikron in Russia, provide us with an excellent understanding of our home markets. We are very familiar with common business practices in our home markets, including Russia and other CIS countries which were generally closed to U.S. and Western European companies during the former USSR. Furthermore, when compared with some industrialized countries, Russia has relatively long-standing cultural and business ties to the Middle East which provides a competitive advantage as we expand into this market.

We have a highly-skilled, cost-efficient workforce and strong research and development capabilities

We are building on the strong technology legacy of the former USSR, which invested heavily in technology education and in cultivating a broad base of technology specialists. We believe we have a highly-skilled and trained workforce. We have strong recruitment programs which allow us to attract highly-qualified technology specialists in the region, and we also invest significantly in the ongoing training of our research and development personnel. Our workforce in Russia, Ukraine and other CIS countries is less costly in comparison to equivalently qualified technology specialists working in Western markets. This allows us to maintain excellent research and development programs and to provide reasonably-priced customized products and services.

We benefit from our relationship with Sistema, an internationally recognized company and a leading provider of consumer services in Russia and the CIS

Sistema is an internationally recognized company and the largest private sector consumer services company in Russia and the CIS. As part of the Sistema group, historically we have had access to essential financial and management resources. This has allowed us to make substantial investments in our internal systems, workforce, technological infrastructure, and research and development capabilities, as well as to provide the necessary support and financing for expansion into other geographical locations through acquisitions. In addition, sales to Sistema and its subsidiaries have provided stable revenue streams for many of our core product lines in the past. Furthermore, by implementing large-scale and high-profile projects for MTS and other Sistema subsidiaries, we have gained invaluable experience which we now leverage to obtain new large-scale, third party projects. For example, large installation projects which we have undertaken for Sistema subsidiaries allow us to demonstrate to potential customers our product capability and scalability.

We benefit from support from the Russian government

Rebuilding a strong domestic technology industry is a high priority for the Russian government, in part because of its need for internally developed, advanced technology for its defense and domestic security programs. We have received strong governmental support as a result of the leading position of our Microelectronic Solutions business in Russia and our ability to provide advanced technology equipment and solutions. The Russian government has awarded us large-scale projects such as the initial development of microchips for e-passports and, as a result, we believe we are well-positioned to win projects with large state-owned enterprises and institutions. In addition, the Russian Federation, through the Federal Agency for Management of Federal Property, made an equity investment of approximately $10 million in Mikron, our key Microelectronic Solutions subsidiary, for a 9.88% interest in this subsidiary.

We have diversified into several high-growth business areas which allows us to realize synergies across our business divisions and better meet our customers' needs by providing complete solutions

Our diversified business model has allowed us to achieve a strong presence in many of the high-growth segments in the Russian, CIS and Central and Eastern European technology markets. Our presence in these segments allow us to realize substantial synergies by leveraging key competencies of our business divisions to offer a wider range of products and services, expand into new geographies and reach more customers. In addition, because of our expertise in a broad range of technologies and solutions across our various business divisions, we are able to provide our customers with complementary products and services to meet their needs. Our cross-selling capability allows us to enhance our product offerings to customers and positions us as a one-stop solutions provider for many of our clients. Our diversified business model also increases efficiency and flexibility of our operations as we are able to allocate labor resources between divisions and geographical locations to ensure rapid implementation of our services at lower costs. For example, we offer products to our Telecommunication Solutions customers such as billing systems which can then be integrated into our customers' platforms through systems integration services offered by our IT Solutions division. In addition, our IT Solutions division frequently assigns its Ukrainian professionals to business consulting and system integration projects in other countries such as Russia and Kazakhstan where local labor is scarce or more expensive. Similarly, our Telecommunication Solutions division sends its Prague-based professionals to projects outside the Czech Republic when project costs can be reduced in this fashion.

We have strategic alliances and partnerships with global industry leaders

Due to our strong positions in the regions in which we operate and high research and development potential, we have been able to develop strategic alliances and partnerships with global industry leaders. We have partnered with many international technology companies, including Siemens, Ericsson, Cisco Systems, Motorola, IBM, Intel, Oracle, Sun Microsystems, STMicroelectronics, G&D, Infineon and Proview and are actively pursuing other partnerships. For example, in November 2006, we signed an alliance agreement with Cisco to jointly develop and market solutions and service packages focusing on Next Generation IP infrastructure, IPTV and WiMAX technologies, as well as on development of existing relationships in respect of distribution of Cisco products.

We mainly use our partnerships for joint research and development, technology transfer, marketing and sales of our products and solutions, obtaining new customers and entering new markets, participating in technology transfers and distribution.

We have an experienced management team with significant experience in acquiring and integrating new businesses

Our executive officers have an average of over 11 years of experience in the technology industry and have developed strong relationships with some of the world's largest technology companies and with key governmental agencies in Russia and Ukraine. Our management team has a strong track record of building and managing rapidly growing companies and of identifying acquisition targets and successfully integrating these businesses into our operations. For example, Kvazar-Micro, our IT Solutions subsidiary, acquired in 2004, is supplied with equipment from our Telecommunication Solutions division which Kvazar-Micro then incorporates into the systems integration services it provides. As a result of successful acquisitions and organic growth, our sales grew almost 10 times from $99.1 million for the year ended December 31, 2003 to $952.6 million for the year ended December 31, 2005.

Strategy

Our primary strategic objective is to maximize shareholder value by continually strengthening our position as one of the leading diversified technology companies in Russia, the CIS and Central and Eastern Europe. In addition, we plan to establish a significant presence in other high-growth regions, including the Middle East, Africa and, eventually, Southeast Asia. We intend to become a one-stop provider for many of our customers by continually improving our technological know-how, increasing the range of our products and services and strengthening our long-term partnerships with global technology leaders. We also intend to further improve the quality of our workforce and the efficiency and flexibility of our production facilities to meet the increasing demands of our customers.

We aim to become a leading global player in the technology industry. We intend to be a leading developer and provider of telecommunication solutions in the CIS and EMEA regions, a leader in IT solutions in the CIS and East European markets, as well as the largest and the most technologically advanced developer and manufacturer of semiconductor ICs on the CIS and CEE markets. In addition, we intend to develop our "Sitronics" brand into a widely recognized mass-market consumer electronics brand across Russia. In order to achieve our goals, we intend to:

Strengthen our position in existing markets

We intend to strengthen our position in the markets in which we currently operate by increasing the size and range of our customer base in the telecommunications, finance and public sectors, as well as by diversifying into new sectors. We plan to leverage our experience in implementing high-profile projects and add new technologies to our portfolio of products and services. For example, in 2005 our

Microelectronic Solutions division joint ventured with G&D for the production of smart cards (*e.g.*, SIM cards, transportation cards, banking chip-cards and RFID applications) in order to supply these products to customers of the Telecommunication Solutions division. We began producing smart cards in 2006 and additional technological upgrades of our production facilities will allow us to capture the entire value chain of smart card production and expand into the RFID and banking cards market. We also intend to expand the cross-selling of our products across divisions.

Penetrate the fastest-growing markets in the EEMEA region

We plan to expand into new, rapidly growing markets of Eastern Europe, the Middle East and Africa. Historically, these markets have had low levels of technology development, both in terms of infrastructure development and consumer adoption of advanced technologies. We intend to achieve this expansion through acquisitions and organic growth. As of September 30, 2006, our Intracom Telecom unit opened a branch office in Cyprus and it plans to open branch offices in Syria, Moldova, Libya and Saudi Arabia by the end of 2007.

Continue to focus on product innovation

We intend to develop new and innovative solutions for our customers by strengthening our team of highly-skilled professionals and leveraging our understanding of global technology trends. We will continue to expand our technological capabilities by further developing our internal expertise through improvement in our know-how, the quality of our workforce and partnerships with international technology leaders.

Our divisions offer innovative products. For example, our Telecommunication Solutions division offers NGN solutions (based on our TENNET softswitch platform), IN solutions (based on our MEDIO switching platform), integrated OSS/BSS providing converged real-time billing solutions, wireless and wireline broadband access equipment (with a focus on WiMAX technology) and content delivery networks (supporting IPTV and triple-play services). In addition, our Microelectronic Solutions division is focusing on developing 0.18 micron EEPROM technology, packaging of flexible microchips, and producing smart cards, including SIM cards, banking chip-cards and social and government ID cards. We intend to offer the entire smart card supply chain from microchip production to integrated smart cards solutions.

Broaden our customer base and increase third party sales

We plan to broaden our customer base and increase sales to non-Sistema group companies. Sales to the Sistema group accounted for 23.5% of our revenues in the nine months ended September 30, 2006. We intend to reduce this concentration by attracting third party customers based on our track record of successfully implementing projects for the Sistema group and other major international companies. We also intend to increase our third party sales by broadening our customer base through acquisitions.

Expand through acquisitions and strategic investments

Expanding our operations through acquisitions and strategic investments is a key part of our growth strategy. Through acquisitions, we intend to acquire new technologies and competencies, expand our geographical presence by obtaining access to new markets, increase our customer base and add highly skilled technical personnel to our workforce. We focus particularly on identifying undervalued companies that we believe can create synergies with our other businesses. We also intend to improve the underlying performance of these companies through rapid integration and cost reduction, which will allow them to contribute significantly to our revenues and profits and our future organic growth. For example, we are exploring opportunities to acquire design capabilities and expertise in Radio Access, 3G and WiMAX technologies which have the potential to significantly improve the product offerings of our Telecommunication Solutions business. Through our acquisition of Intracom Telecom in June 2006, we obtained a complementary product portfolio for our Telecommunication Solutions division, highly-trained personnel and access to regions in which we previously did not operate. We are also evaluating opportunities to acquire strong teams of systems integration professionals which will allow our IT Solutions division to strengthen its consulting services business. In addition, we intend to develop our IT software outsourcing business organically or through acquisitions. In the

Microelectronic Solutions division, we intend to establish a design center with EEPROM and CMOS design capability, possibly through acquisitions.

We have an Investment Committee that reviews potential investment projects. The Investment Committee is comprised of certain executive officers and the heads of our business divisions. The committee reviews potential investments based on set criteria, including the degree to which an investment accomplishes our strategic objectives and its projected rate of return. The committee then makes recommendations to our Budget Committee to invest in particular projects and, after the investment is made, monitors the financial results of investment on a monthly basis.

Expand our cross-selling capabilities across our business divisions

We intend to expand our cross-selling capabilities through improved cooperation and coordination among our divisions. We have established special committees which are responsible for coordinating the efforts of our production, research and development and sales and marketing activities across our Telecommunication Solutions division. In most cases, the division with the strongest presence in a particular region will bear primary responsibility for assisting our other divisions in their geographical expansion into that region. Our Greek-based Intracom Telecom unit, which also has a presence in the Middle East and Northern Africa, is primarily responsible for facilitating expansion into these regions. In addition, we are working to improve the portfolio of our Telecommunication Solutions division by jointly offering telecommunications products with services from our IT Solutions division, including installation services, systems integration and follow-on business consulting and maintenance.

Improve the integration and efficiency of our operations

We intend to further increase our operating performance by leveraging our favorable cost structure, increasing the share of high-margin products and services in our portfolio, improving working capital turnover and the efficiency of our production cycle. In the Telecommunication Solutions division, we plan to focus on NGN, OSS/BSS, IN and other high-margin software products. We intend to maintain relatively low research and development costs by continuing to conduct these activities in low-cost locations in Russia and Ukraine. In the IT Solutions division, we will concentrate on IT consulting and IT outsourcing as well as other value-added services. We intend to continue using relatively lower wage Ukrainian IT professionals in high labor cost markets such as Moscow. In the Microelectronic Solutions division, we offer all stages of the smart card supply chain. In the Consumer Electronics division, we will focus on high-margin products with unique designs and features, including the use of jointly developed products with other divisions. We will also improve our working capital by terminating certain product lines such as CRT televisions and cease to resell non-Sitronics brands. In addition, we are assessing the potential of our Electronics Manufacturing Services division using the manufacturing facilities of our Telecommunication Solutions division in Romania, the Czech Republic and Greece in order to improve utilization rates.

Form new partnerships and strategic alliances and develop existing ones with industry leaders

We intend to focus on new partnerships and strategic alliances with industry leaders through joint research and development activities, marketing and sales of our products and solutions, obtaining new customers or entering new markets, participating in technology transfer and entering into distribution agreements. In addition, we intend to develop our existing partnerships and strategic alliances including those with Siemens, Ericsson, Cisco Systems, Motorola, IBM, Intel, Oracle, Sun Microsystems, STMicroelectronics, G&D, Infineon and Proview.

Participate in government programs and large infrastructure projects

We believe we are well placed to participate in government tenders for technology services and products due to our strong position in our home markets and our affiliation with Sistema. In September 2005, the Russian Federation announced national projects in the fields of education, agriculture, health care and housing. We intend to participate in these government programs. For example, our Telecommunication Solutions, IT Solutions and Electronics Manufacturing Services divisions offer a complex distance learning platform which is marketed under our MIOS brand to education departments and combines system integration and software solutions provided by our IT Solutions, communication infrastructure and access solutions by our Telecommunication Solutions division, and hardware manufacturing by our Electronics Manufacturing Services division.

We believe we are well placed to participate in large infrastructure projects for industries in which we have experience, including telecommunications, education, transportation, energy and defense. For each of these industries we have developed and successfully implemented complex turn-key projects for small- to large-sized national and international companies as well as government organizations. For example, in the telecommunication sector we offer a complete turn-key solution for telecom operators, in the transportation sector we offer automated systems for dispatching and control of passenger transportation and in the energy sector we offer billing solutions based on a network of intelligent power and water meters. We also intend to offer products for other industries which we believe have great growth potential in our geographic markets.

Continue our cost-effective research and development model

We intend to continue our cost-effective research and development model in which we employ highly skilled and low-wage research and development professionals from certain areas of Russia and Ukraine to maintain relatively low research and development costs while meeting customers' expectations of high quality products and services incorporating the latest advances in technology.

Telecommunication Solutions

Overview

We are a leading provider of telecommunication solutions in the CIS and EEMEA markets with an established track record of implementing our solutions for major telecommunication operators. We develop and manufacture equipment for telecommunication networks, develop software programs to manage the delivery of telecommunication services by operators and provide systems integration services and professional services. We offer hardware and software solutions including digital switching, Business Support Systems ("BSS")/Operations Support Systems ("OSS"), broadband wireline access and wireless access and transmission systems, Next Generation Networks ("NGN") and content delivery network solutions (such as IPTV and video, voice and data content or "triple-play").

We operate through two principal units, Strom Telecom and Intracom Telecom. The Telecommunication Solutions division was established in December 2002 upon the acquisition of Strom Telecom, a company founded in 1993 and headquartered in Prague, the Czech Republic. In June 2006, we acquired a 51% interest in Intracom Telecom, headquartered in Athens, Greece, from Intracom Holdings S.A., a Greek company established in 1977. As of September 30, 2006, we employed approximately 5,300 people and had offices and subsidiaries in 19 countries including Russia, certain countries in the CIS and EEMEA region and the United States. Our revenues for the year ended December 31, 2005 (on a pro forma basis) and the nine months ended September 30, 2006 were $593.3 million and $503.9 million, respectively.

We sell our products and services in approximately 60 countries. Our major markets are Russia and Ukraine, Greece, the Balkans and the Middle East. Our principal customers include major fixed and mobile network operators such as MTS (Russia), MGTS (Russia), UMC (Ukraine), OTE (Greece), Cosmote (the Balkans), Vodafone (the Balkans), ITC (Saudi Arabia) and STE (Syria). Our sales to the Sistema group as a percentage of total revenues were 35.8% for the nine months ended September 30, 2006. We employed a total of 324 people in our sales and marketing department as of September 30, 2006.

As of September 30, 2006, we employed a total of 1,660 people in our research and development centers and approximately 84% of these employees had university degrees in technical and scientific disciplines. Our main research and development centers are located in Greece, Russia and the Czech Republic and are engaged in product development in a number of different product areas, including network switching, broadband access, wireless communications, content delivery networks and software applications related to the delivery of telecommunication services.

As of September 30, 2006, we employed a total of 830 people at our production facilities. Our production facilities are located in Votice, the Czech Republic (approximately 50 kilometers outside of Prague), Athens, Greece, Bucharest, Romania and Zelenograd, Russia and have a total production area of approximately 23,000 square meters. Our digital switching and NGN equipment are manufactured at our Votice and Zelenograd production facilities. Our wireline and wireless access and transmission equipment and our lottery devices and other terminals are manufactured at our Athens and Bucharest production facilities.

Competitive Strengths

We believe that we have the following competitive strengths:

Leading provider of telecommunication solutions in Russia, the CIS and the EEMEA markets

Since 2003, we have delivered BSS/OSS solutions for telecommunication operators in the Sistema group, such as MTS and MGTS, which has helped us become a leading BSS/OSS supplier in Russia and Ukraine. As one of the few suppliers of both core switching and BSS/OSS solutions that also has production facilities and research and development centers in our target markets, we believe that we are in a strong position to increase our market share in Russia, the CIS and the EEMEA region by developing and expanding our client base in these rapidly expanding markets. For example, in 2006, we obtained a contract to deliver a BSS real-time billing solution to Vodafone (Czech Republic) largely as a result of the experience we gained implementing solutions for MTS and MGTS.

With our acquisition of Intracom Telecom, a company with many years of experience in the telecommunications industry and a client base of approximately 100 customers, we became a leading EEMEA developer and manufacturer of telecommunication systems and a supplier of integrated telecommunication solutions and related professional services. Intracom Telecom currently serves many of the major fixed and mobile operators in the EEMEA region. In addition, we market our equipment and integrated telecommunication solutions globally.

The telecommunication solutions market is highly competitive. However, there is a long history of cultural and business ties between the Middle East and each of Russia, the Czech Republic and Greece. As a result, we believe we have a strong competitive advantage in accessing the Middle East markets relative to our competition.

Wide range of services and customized offerings

We offer a wide range of products and services and integrated turn-key solutions, including NGN, BSS/OSS, broadband wireline and wireless access, transmission systems and content delivery systems. In addition, we offer customized products and solutions to meet the specific needs of our customers which range from local niche players to major Tier 1 telecom operators.

Deep market insights and the ability to capture market opportunities

The CEE and MEA telecommunication markets are expected to grow at one of the fastest rates in the world with a compound annual growth rate of 13.8% and 13.4%, respectively, for 2004 through 2009, according to Gartner Dataquest (September 2005). Recent efforts by countries in this region to liberalize their telecommunications markets have led to several privatizations of Tier 1 operators and to the emergence of numerous greenfield operators. Due to our existing sales network in these regions, we believe we are well positioned to benefit from the significant business opportunities created by these privatizations.

With our main offices in Moscow, Athens and Prague, we have an intimate knowledge of our home markets and we believe that our knowledge of local languages and cultures provide us with a competitive advantage over foreign-managed companies. We have extensive experience implementing projects for major operators in this region and we believe our proprietary technology in core switching, wireline and wireless access and transmission, content delivery networks and BSS/OSS allow us to offer unique and tailored solutions.

Cost competitive advantages of our operations and research and development

We employ highly-qualified development engineers at competitive Eastern European labor rates which allows us to keep pace with changing technologies and to incorporate the latest technological developments into our products in a cost effective manner. We have close relationships with a number of universities and scientific centers in Russia, the Czech Republic and Greece, and we recruit some of our employees from these institutions. Unlike some of our larger competitors, we will not need to expend resources over the next five years to maintain and support a large customer base using legacy systems. Our ability to devote our resources to products based on the latest technology allows us to more easily innovate and address the changing technological environment. In addition, our use of common technology platforms in the development of our software and hardware solutions enhances the efficiency of our research and development.

We position ourselves in our target markets as a high performance, flexible volume and low-cost developer and manufacturer of telecommunications products. Our production facilities are located in the Czech Republic, Greece, Romania and Russia. As a result, we believe we have a highly competitive cost structure due to relatively low labor, administrative and logistics costs and our proximity to clients. This allows us to offer high-quality solutions at competitive prices.

We believe that we are an attractive partner for global vendors due to our technical skills in research and development and our project implementation capabilities, low-cost structure, significant market presence in Russia, other CIS countries and the EEMEA region, and affiliation with Sistema. In addition, local production affords us domestic manufacturer status in several countries, which is important for obtaining government certifications and participating in local tenders.

Innovative research and development capabilities and technologically advanced production facilities

We invest a significant portion of our revenues in product research and development. This allows us to offer the latest technology and to adopt the latest industry standards in our solutions. In addition, our use of highly qualified professionals from the CIS allows us to conduct research and development at a relatively low cost, giving us an advantage over our competitors. For the year ended December 31, 2005, on a pro forma basis, and for the nine months ended September 30, 2006, our research and development expenditures were $41.5 million and $26.9 million, which represented 7.0% and 5.3% of this division's revenues, respectively.

As of September 30, 2006, we employed 1,269 research and development personnel in our research and development centers located mainly in Prague, the Czech Republic and Moscow and Novosibirsk, Russia. We are able to design and produce all aspects of core switching equipment and BSS/OSS software. This has allowed us to combine our core switching and BSS know-how to develop an innovative convergent real-time billing system for telecommunication operators. Our research and development groups in Athens, Patra, Xanthi and Thessaloniki, Greece employed 391 people as of September 30, 2006 and are developing leading products in wireless broadband networking and content delivery networks.

We attract high caliber Russian engineers from technology institutes and scientific centers in Moscow and Novosibirsk. In addition, we are affiliated with the Czech Technical University, where we fund a telecommunications research center. We also cooperate with the Athens Information Technology education and research center, which offers, jointly with Carnegie Mellon University, post-graduate courses and research opportunities in engineering and information technology. These activities assist us in recruitment for our research and development centers.

In order to facilitate the rapid design and development of technologically advanced, high-quality products and systems, we operate manufacturing and production facilities that conduct the entire spectrum of mass production operations, including printed circuit board assembly, wiring and cabling, mechanical assembly, testing, final assembly and environmental testing. Our quality control procedures involve a continual process of product improvement. We apply a quality management system that allows us to maintain compliance with international quality standards such as ISO 9001 and ISO 14001, and we employ advanced automated equipment both in the manufacture and testing of our products. As of September 30, 2006, we employ 830 people in our manufacturing and production process. We conduct ongoing training programs for these employees and approximately 16% of them are certified to international industry standards.

Track record of successful projects in large carrier environments

Our Strom Telecom unit is involved in on-going, large-scale implementations for three Tier 1 Sistema group operators in Russia and Ukraine: MTS, MGTS and UMC. Our ability to undertake and manage these projects successfully using our own resources is a key competitive factor that allows us to expand our client base internationally. Our major projects include the on-going migration of 40 million MTS pre-paid and post-paid subscribers to our BSS and customer relationship management ("CRM") system and the installation of digital switching equipment to support one million MGTS subscribers. We believe that this experience in complex, mission-critical implementations contributed to our securing a turn-key project to install a telecommunications network that supports up to six million calls per day for CALLAX, a German telecommunications operator. We also provide an outsourced network management service to CALLAX.

Our Intracom Telecom unit has many years of experience and has implemented over 40 large-scale national turn-key projects for operators. These include the digitalization of OTE in Greece, RomTelecom, a Romanian operator, Armentel, an Armenian operator, as well as MoldTelecom, a Moldovan operator. Furthermore, Greek mobile operators such as Vodafone and Cosmote, and their subsidiaries throughout the Balkans, have purchased our wireless and wireline transmission networks products, which include an array of technologies ranging from wireless PDH to wireline SDH and DWDM transmission. In addition, Internet service providers and private operators have selected us to design and implement their new Internet protocol networks, including OTEnet and Tellas in Greece and ARTelecom in Romania. Furthermore, ITC in Saudi Arabia has awarded us the turn-key implementation of its entire WiMAX network, including all infrastructure and BSS/OSS systems.

Strategy

Our objective is to position ourselves as a leading provider of telecommunications products and solutions in the CIS and EEMEA markets with a focus on hardware and software solutions such as NGN and content delivery solutions, BSS/OSS solutions, including billing systems and other software solutions for telecommunications operators, and broadband wireline and wireless access and transmission systems. We intend to emphasize our ability to be a total solutions provider, coupling our innovative products with our implementation and integration service capabilities.

We believe our installations for large telecommunications operators in the Sistema, OTE and Vodafone groups highlight a track record that attracts new clients and, as a result, will expand our client base and geographic footprint. Our acquisition of Intracom Telecom, with its large and geographically diverse client base, increased our percentage of third party sales and we intend to continue to expand our client base in Eastern Europe and the Middle East and Africa where teledensity levels are low. We will consider further acquisitions to accelerate our growth and strengthen our product portfolio.

We have an ongoing integration initiative for our Strom Telecom and Intracom Telecom units. Coordination boards comprising executives from both units in the research and development, sales and marketing, network integration and professional services and production areas have been established with the aim of integrating the two units and aligning their strategies.

Specifically, we plan to implement the following strategies to achieve our objective:

Focus on expansion into underdeveloped markets

In order to enhance our revenue growth, we intend to enter new markets through organic growth and acquisitions by primarily focusing on underdeveloped telecommunications markets in the CIS and EEMEA regions. The majority of these markets have underdeveloped fixed-line infrastructure but rapidly developing mobile telephony with new operators entering the market due to privatizations and market liberalizations. We believe that we are well-positioned to benefit from entering these new markets, which are characterized by limited local know-how and low competition, due to our technological expertise, cost advantages and understanding of the regional market. Recently, we have begun implementing large-scale projects in Syria and Saudi Arabia.

Continue to focus on high-margin products and increase the share of systems integration and professional services

One of our main strategic objectives is to achieve a favorable balance between strong growth and profitability. We intend to focus on providing solutions for the core mission-critical components of a telecommunication operator's network where we see strong demand and higher margins, particularly when delivered in the form of a turn-key solution. Thus, our focus will be on BSS/OSS and IPTV, broadband wireless access and NGN switching and the attendant professional services. We intend to continue to sell traditional hardware technologies where we see demand but to also use client relationships to promote more advanced technology and solutions supported by our professional services.

Strengthen and further develop strategic alliances with global telecommunications players

We have long-standing relationships with leading technology providers. These providers complement our portfolio and also depend on us for implementing and supporting solutions which we provide jointly. Our partners include Cisco Systems, Alcatel, Ericsson, Motorola, Agilent, Oracle, Hewlett-Packard, Metratech, Azure, Logica, and Sun Microsystems, among others. For example, we have extensively deployed Agilent's AcceSS7, a network management tool, in the Balkans, Kuwait and Saudi Arabia, and delivered a turn-key installation of a mobile network in Armenia using GSM equipment from our partners. These partnerships allow us to benefit from our partners' expertise and technology in developing our own turn-key solutions and to gain access to their customer-base for the promotion of our in-house designed products. Our partners also benefit from the high quality of our local implementation and support service capabilities and our promotion of their products when suitable for a given project. We intend to expand our partnerships in high-growth, high-margin areas such as NGN solutions, BSS/OSS and wireless broadband access and transmission solutions.

Leverage successful project references and build on existing relationships with clients

We aim to satisfy the most demanding needs of our customers. By providing maintenance services and closely monitoring technological innovations, we believe that we succeed in meeting our clients' needs and are able to offer timely new products and services. According to Dittberner Associates, $143 billion in capital expenditures are expected to be invested by fixed and mobile operators through 2010 to meet the demand for high-bandwidth services in the CIS and EEMEA regions. We intend to benefit from the expected investments in these areas by securing large turn-key projects through leveraging our success in implementing projects for major operators in the EEMEA region (including Cosmote, Vodafone Egypt, TeliaSonera, Telenor, Matav, TIM, Romtelecom, Saudi Telecom and Armentel) as well as with Sistema group companies (including MTS and MGTS).

Continue to strengthen research and development capabilities and focus on emerging technologies

In order to shorten our time-to-market with quality products incorporating the latest technology, we will continue to invest in our development capability and continue to develop our BSS/OSS, broadband access, content delivery and NGN solutions. Our goal is to be one of the leading vendors in these growing market segments. In 2007, we plan to release a 3G version of TENNET, our NGN product, which will be equipped with IMS core functionality. In addition, we are actively involved in the development of WiMAX solutions. For example, we are currently testing our WiBAS wireless backhauling and access product with repeater capabilities.

Acquire companies with access to new markets and new technologies

As part of our growth strategy, we will target acquisitions that offer access to new markets and an ability to secure new business with major global telecommunications operators. We will also consider acquisitions that provide us with new technologies that would accelerate our product development or offer products that are complementary to our existing product portfolio.

Continue to integrate our Strom Telecom and Intracom Telecom units

The complementary nature of the portfolio of products and the primary markets of Strom Telecom as compared with Intracom Telecom has assisted the integration process. Strom Telecom has historically offered BSS/OSS and digital switching for the CIS market while Intracom Telecom has historically offered wireline, wireless access and transmission and content delivery networks for the markets of Greece, the Balkans, the Middle East and North Africa.

The integration of our Strom Telecom and Intracom Telecom units is continuing under the direction of coordination boards staffed by executives from both units. We expect this integration process to yield synergies in each of the following areas for which we have established coordination boards: product development, manufacturing, sales and marketing, network integration and professional services.

We expect to complete the integration process in 2007. In 2006, our integration process has resulted in interoperability testing of Strom Telecom's NGN and Intracom Telecom's access solutions, cross-training among sales teams, consolidation of the Russian and Middle East sales force, cross-utilization of our Czech Republic and Romanian manufacturing facilities, consolidation of suppliers and integrated marketing efforts. In February 2007, Strom Telecom changed its name to SITRONICS Telecom Solutions, Czech Republic a.s., and intends to transition to the "Sitronics" name in its business activities.

Products and Services

We are a leading developer and manufacturer of telecommunications systems, and a global supplier of integrated solutions and professional services that serve the needs of operators of fixed and mobile networks. We offer a broad range of products including network switching equipment, video, voice and data ("triple-play") content delivery networks, wireless and wireline multi-service broadband access systems, point-to-point and point-to-multipoint microwave transmission systems, network management systems, operation and business support systems, and intelligent network terminals.

Our products are delivered in the form of systems which are integrated with the customer's existing network and IT systems. We have a successful record of providing turn-key or "end-to-end" solutions to our customers that encompass some or all of the following: advisory and consulting services, solution design, installation, testing, commissioning, and systems integration. Such professional services are a substantial part of our business. We provide professional advice on the operators' choice of investment, provide the design for the chosen solution and implement the project. This allows the operators to focus on their core operations. The professional services we provide depend on the product or solution. For example, an IPTV implementation requires us to provide advice on the design and implementation of the service delivery platform and on the content and service packaging, as well as customization services for localizing the solution or adapting the solution to the specific market and to customer requirements. Our after-sales support services include maintenance and repair, technical support, network monitoring, management and operation.

The following table sets out our principal products offering and our revenues for each product category. Revenues from professional and after-sales services are reflected under the products to which they relate.

Product/service category	Year ended December 31, 2005[(1)]	Percentage of total	Nine months ended September 30, 2006	Percentage of total	Principal products and related professional services
	(in millions of U.S. dollars, except for percentages)				
Network solutions/ Content delivery	362.6	61.1%	284.8	56.5%	• TDM Switching & NGN • Data networks • VAS, IN & Convergent Charging • Mobile networks • Content delivery networks
Access/Transmission	53.1	8.9%	34.2	6.8%	• Wireline transmission systems • Broadband wireline access • Wireless access and transmission • Terminals
BSS/OSS	125.1	21.1%	100.9	20.0%	• Billing • Customer care • Revenue assurance • Provisioning • Mediation • Network inventory • Network assurance • Performance management
Outsourcing/Other	52.5	8.9%	84.1	16.7%	• Lottery systems • Software development • Network Management/ Operation • Other
Total revenues	593.3	100.0%	503.9	100.0%	

(1) Presented on a pro forma basis to include Intracom Telecom as though it had been acquired on January 1, 2005.

Network Solutions/Content Delivery

For the nine months ended September 30, 2006, NGN and TDM switching, data networks, VAS, IN and convergent charging, mobile networks and content delivery networks accounted for 18.4%, 29.3%, 35.4%, 16.6% and 0.2% of the revenues for the network solutions/content delivery product category, respectively. We deliver turn-key technology solutions and professional services to telecommunications operators and large enterprise networks built around the following products:

TDM Switching & NGN

A network switch (or switching platform) is a device which establishes and manages a temporary connection between two or more parties and channels the data from one or more input ports to a specific output port. An exchange refers to a network switch typically capable of handling thousands of subscribers concurrently. These network switches use different technologies to identify and route the incoming data to the outgoing port, namely time division multiplexing ("TDM") or packet-based data.

MEDIO is our digital switching platform for telecommunications operators and is based on TDM technology. MEDIO is a programmable and easily expandable system that allows the construction of exchanges ranging from several hundred to several hundred thousand subscriber lines. MEDIO is designed for so called "carrier grade" systems which are characterized by high performance and reliability. Our first MEDIO installation was sold in 1998 to MGTS.

MEDIO can be used to construct a variety of exchanges, such as a transit exchange, local exchange, central office, mobile switching center ("MSC"), gateway MSC ("GMSC"), home location register ("HLR") or short message service center ("SMS-C"). MEDIO is also configured as an intelligent network ("IN") platform supporting multiple value-added services.

We have sold more than 52 MEDIO exchanges since 1998 to operators of fixed-line networks and seven MEDIO exchanges to mobile network operators. Since 2001, the majority of our commissioned transit exchanges have included IN functionality.

We believe that as telecommunication operators move from TDM networks to packet-based networks, the market for TDM switching equipment is set to decline as operators migrate to NGN equipment. However, we expect continued demand for our IN platform for the provision of real-time billing and value-added services ("VAS").

Telecommunication operators are migrating from traditional TDM networks to packet-based NGNs because of an NGN's ability to provide multiple services at lower operating costs over a single network. Broadband access is an essential component of a network's ability to deliver services with a high data transmission rate to the end-user. Our NGN products include media gateway controllers that are designed to support voice-over-IP ("VoIP") and allow integration into an environment providing telephony, IPTV, video-on-demand, instant messaging and push-to-talk services.

TENNET is our NGN platform designed and manufactured by our Strom Telecom unit and is based on the new industry standard known as Advanced TCA©. This platform is designed for large-scale implementations of up to 500,000 subscriber ports per cabinet, but which can scale down to 70,000 subscriber ports per cabinet. The platform may be configured as a media gateway controller, media gateway or media server. We piloted our first platform with MGTS in July 2006.

Since 1988, we have collaborated with Ericsson in manufacturing Ericsson AXE switching equipment and marketing digital switches to fixed operators. We delivered hundreds of digital exchanges to OTE, the Greek PTT, for which we connected 4 million ports, and we installed approximately 637,000 digital lines for Romtelecom, Moldtelecom and Armentel.

Our professional services teams integrate third party equipment with our access systems (IBAS MSAN) and IN platform applications to offer turn-key solutions to fixed-line operators such as Teledome, for whom we deployed a NGN solution in 2006.

Data Networks

Data networks are built from network elements designed to transport data packets. Different technologies and different protocols such as ATM, frame relay, Internet protocol and multiple protocol labeling system ("MPLS") are used to transport these data packets across different parts of the network. Our professional services teams provide turn-key solutions (pre-sales consulting, design and implementation) for multi-service data networks in the service provider market (public telephone companies, mobile operators and Internet service providers) for VoIP services, Internet services, 3G data services, corporate data network services and banking services. We have undertaken projects in more than 13 countries with major operators such as OTE (Greece), Romtelecom (Romania), Armentel (Armenia), STC (Saudi Arabia), ITC (Saudi Arabia) and Vodafone (the Balkans).

Our Intracom Telecom unit is a Cisco Systems Gold Partner in Greece and a Cisco Systems Professional Service Partner for the European Union, the Balkans, Armenia and Saudi Arabia.

VAS, IN and Convergent Charging

In addition to the switches, intelligent networks ("INs") include distributed computer nodes designed to recognize a certain portion of a dialed phone number, such as 800 or 900, as a request for a specific service and to respond accordingly. An advanced IN enables part of a telephone number to be interpreted differently by different services depending on factors such as time-of-day, caller identity, and the type of call. An IN allows new value-added services ("VAS") to be introduced or modified without having to redesign the switching equipment. The most important VAS introduced to mobile networks has been the prepaid calling card service. This and several other VAS requires operators to charge for services in real-time. Convergent charging is the ability of the network to provide common services rated or charged in real time to all subscribers whether they are traditional "post-paid" or prepaid calling card subscribers.

MEDIO IN is our product based on our MEDIO switching platform. MEDIO IN delivers a full complement of VAS such as private ringback tones, missed call alert, web messaging, voting, calling line verification, freephone, premium rate, split charging, universal access number and number portability. Since 2002, we have delivered IN installations to clients such as MTS, MGTS, CALLAX and WTN. We sold our first MEDIO IN prepaid platform to MTS in 2006, which enables mobile operators to provide prepaid subscriber services.

Furthermore, we have been developing IN applications to overlay the HP OpenCall suite of products since 2001 and have delivered IN and convergent charging applications to Telecom Serbia and ARTelecom (Romania). We also provide systems integration and technical support services for the Logica CMG prepaid platform, which we have deployed for Cosmote, Globul, AMC, Cosmofon and Armentel and which serves approximately 8 million subscribers.

Our ServiceWeaver application server and delivery platform developed by our Intracom Telecom unit offers a range of applications, including ringback tones and web messaging. Our Prepaid Account Manager enables prepaid subscribers to manage their accounts via short messaging service ("SMS"), unstructured supplementary services data ("USSD"), wireless application protocol ("WAP"), WEB, and interactive voice response ("IVR"). We have delivered these systems to a number of mobile operators such as Cosmote, Cosmofon, Globul, Vodafone Group, TIM Hellas and AMC.

We have worked in the past with major vendors, including Airwide to deliver SMS and MMS messaging systems to mobile network operators including Cosmote, Cosmofon, Globul, Vodafone Group, TIM Hellas and AMC. Messaging systems based on our MEDIO switching platform have been delivered to mobile and fixed network operators such as UMC, MTS and MGTS.

Mobile Networks

Mobile networks comprise many radio base stations which transmit to and receive radio signals from the subscriber's mobile phone. The base stations must be connected to the "core network" either directly or more often by a separate high capacity point to multi-point radio systems (referred to as "backhauling"). The radio networks are based on different transmission technologies such as the global system for mobile communications ("GSM"), code division multiple access ("CDMA") or terrestrial trunked radio ("TETRA").

We deliver turn-key mobile networks for TETRA and GSM systems through cooperation with Alcatel and Ericsson on GSM solutions and with Motorola Hellas on TETRA solutions. We offer networking services to operators, including planning and engineering, implementation, operation and maintenance, training, and project management services.

We have delivered a national TETRA network to OTE in Greece. We also delivered a turn-key 2G and 2.5G network to an Armenian Tier 2 operator. In addition, we developed part of the network of Vodafone, Cosmote and TIM Hellas in Greece, Bulfon in Bulgaria, Vodafone in Albania, Cosmorom in Romania and Cosmofon in Macedonia.

Content Delivery Networks

Content delivery networks ("CDNs") are the combination of network components and management software for the delivery of "content" such as video, TV broadcasts and computer games over a broadband network. Fs|cdn is our end-to-end platform for the delivery of bundled triple-play services over a broadband network. We own, develop and continually enhance various components of the CDN such as conditional access and content protection as well as service management modules and interactive applications. The services supported by our fs|cdn platform include broadcast digital TV and radio, video-on-demand, parental controls, on-line gaming, multiple languages support, as well as on-screen content services, television-commerce applications and unified messaging including voicemail and email.

Since its launch in 2004, we have delivered nine systems, four of which operate commercially and five await the customers' final acceptance before entering commercial operation. Conklin-Intracom, our U.S.-based subsidiary, has deployed fs|cdn in a number of U.S.-based independent operating companies with network capacities ranging between 5,000 to 100,000 subscriber lines. In the Middle East, we are working towards establishing fs|cdn as a service delivery platform for hospitality and multiple tenant unit and multiple dwelling unit scenarios by establishing partnerships with local integrators and real estate developers. We have installed and demonstrated a number of trial systems in 2006. In parallel, we are also marketing fs|cdn to newly established carriers of the region.

Access/Transmission

Wireline Access

A digital subscriber line access multiplexer ("DSLAM") is a network device, usually installed at a telephone company's central office, that receives signals from many customer digital subscriber line ("DSL") connections and places the signals on a high-speed line using "multiplexing" or bundling techniques. DSLAM enables a phone company to offer business and residential users fast phone lines which may be used for both voice calls and broadband services such as Internet access and IPTV. Our wireline access product portfolio includes a range of solutions from mini-DSLAM to high density Multi-service Access Nodes ("MSAN").

Our IBAS MSAN platform allows operators to migrate smoothly from TDM to NGN. It enables the simultaneous provisioning of triple-play services, multiple broadband services such as IPTV and high-speed Internet, in addition to narrowband services such as voice telephony and VoIP, using the same infrastructure. Our FASTmux mini-DSLAM product series enables operators to extend wireline broadband services to any required point.

Our wireline access systems have been deployed in Greece, Romania, Armenia, Cyprus, Moldova and Albania and provide more than one million voice lines. More than 300,000 DSL lines have been deployed worldwide (including in Greece, Luxemburg, Russia, Cyprus, Hungary, United States, Canada, Uruguay, Bolivia, Philippines and New Zealand). We delivered IBAS to Hellas on Line and Moldova in 2005 and 2006.

Wireline Transmission Systems

Core networks are the central network through which all transmissions pass and where the central management and control function resides. The access network connects a multitude of subscriber terminal devices to the core network. It acts as an interface between the many types of terminal devices, access technologies and protocols, and the core network.

We provide turn-key solutions for core transmission and access networks through a range of transmission technologies to deliver high-capacity, long-haul interconnections for the backbone networks of operators, large companies and government agencies. Since 1986, the professional services teams of our Intracom Telecom unit offering Marconi/Ericsson equipment have provided solutions in Albania, Armenia, Bulgaria, Moldova, Romania and countries in the European Union and Africa. Our clients in this field include OTE, Vodafone, Cosmote, Romtelecom, Moldtelecom, Cosmofon, Armentel, BTC (Bulgaria), AMC and H-COMMS (Albania), Golden Telecom (Cyprus), as well as Hellas on Line

(Greece), PPC (Greece), Greek Research and Technology Network, DEPA (Greece), Athens International Airport, Hellenic Railways Organization, and FilmNet (Greece).

Wireless Access and Transmission

Wireless technology is increasingly capable of providing voice and high-speed data communications to both mobile and stationary subscribers. In certain areas where installing cabling is uneconomical, wireless technology often provides a viable alternative transmission technique.

IAS-W narrowband and WiBAS broadband point-to-multipoint platforms are capable of addressing all urban and rural wireless access needs and range from plain telephony to WiMAX services. WiBAS also provides an attractive solution for wireless backhauling of broadband networks. We have a number of products which provide an array of transmission capacities for fixed and mobile networks to extend the scope of the point-to-point products range.

Our notable projects include IAS-W narrowband deployment with 1,000 sites serving 140,000 customers for STE in Syria, WiBAS to provide backhauling (WiBAS-2X/Pro) and nationwide access (WiBAS-MAX) in Saudi Arabia, and more than 8,000 point-to-multipoint installations in 25 countries worldwide.

Terminals

We offer two main products to fixed-line operators: ISDN network terminals and integrated payphone systems. Our ISDN network terminals (including netCon, netCon+ and netMod) provide digital communication for either voice or data transmission and are managed by our NTMS centralized management system. Since 2003, we have sold ISDN network terminating units in more than 40 countries worldwide, while we have sold netMod products to operators in Greece, Serbia, Hungary, Mexico and Costa Rica.

Integrated payphone systems comprise a variety of indoor and outdoor payphones for PSTN and GSM networks, line antifraud, powerful payphone management systems, payphone chip cards issuing and administration systems, as well as indoor and outdoor semi-booths. All payphones share the same components and their software can be easily adapted to market requirements. These phones can be powered by telephone lines and are characterized by low power consumption. Since 2003, approximately 212,000 of our payphones have been delivered to 23 countries worldwide.

BSS/OSS solutions

Business support systems and operation support systems are IT systems designed specifically to manage the process of delivering, metering and invoicing of services over a telecommunications network and managing the accounts of, and relationships with, subscribers and service partners.

In the BSS/OSS market sector, we combine the expertise of our Strom Telecom unit in developing, implementing and integrating our FORIS platform with the expertise of our Intracom Telecom unit in developing and implementing its own BSS/OSS products and in configuring and customizing third party products. Both Intracom Telecom and Strom Telecom have the capability of delivering complete turn-key solutions with in-house resources.

FORIS is a suite of integrated software modules which provide operators with a BSS system for revenue management, client management and service management. FORIS performs mediation, data collection, data analysis and storage and rating; billing and collection; provisioning; and customer care for all types of telecommunications operators. Since 2001, we have sold a total of 10 FORIS systems, which now support more than 51 million telecommunication subscribers.

In combination with our FORIS BSS software, our MEDIO IN prepaid platform provides real-time billing for operators. It enables operators to provide "converged" services to both prepaid and post-paid subscribers and to create loyalty or discount programs which can be established for multiple subscribers. We have delivered 14 MEDIO IN prepaid platforms to MTS and UMC, which support 27 million subscribers.

Billing

Our billing solution allows customers to design and test their product offerings and charging schemes, record, classify and evaluate customer subscriptions and network usage, and generate revenues through accurate customer invoicing and effective credit control and collection policies. Our major deployments include MTS (Russia), MGTS (Russia), Callax (Germany), Umniah (Jordan) and ITC (Saudi Arabia). In addition, our billing and prepaid systems support approximately 800,000 customers of SMARTS (Russia) and 300,000 customers of a VimpelCom subsidiary in the Russian Far East.

Customer Care

This module is designed to assist companies in providing customer service with the goal of increasing customer loyalty and retention. Functionalities include CTI, recording, CRM, help desk and voice recognition solutions. We have delivered 18 installations in Europe and Asia to operators and enterprises such as Vodafone Greece, National Bank of Greece, Vodafone Albania, Buy-Sell Cyprus and AMC (GSM operator) of Albania.

Revenue Assurance

Revenue assurance systems are used to discover gaps in an operator's systems and procedures that may result in a loss of revenues. By testing and analyzing an operator's processes, it is possible to identify revenue leakage and fraud. We have delivered revenue assurance systems to TIM Hellas, one of the largest GSM operators in Greece.

Provisioning

Our ActionStreamer product enables operators to automate the activation of new services over their network, thus providing significant labor cost savings. It allows network changes to take place seamlessly by providing a real-time link between business level, customer facing services and the technical aspects of underlying network technologies.

Our provisioning solution has been deployed by the following operators: Cosmote (a Greek Tier 1 operator), Globul (Bulgaria), Armentel (Armenia), Cosmofon (Macedonia), Teledome (Greece), MoldTelecom (Moldova) and ITC (Saudi Arabia).

Mediation

Mediation entails collecting data from the network elements, processing and compiling the data to create service usage information and presenting it to downstream billing, fraud management and other BSS systems for further processing. Our Intracom Telecom unit has developed and installed mediation solutions for operators since 1996, which are often accompanied by consultancy, project management, training and after-sales support services. We have worked with FusionWorks (from Openet Telecom) since 2002 and offer active mediation and real time charging. Our customer portfolio includes OTE (a Greek Tier 1 operator), OTEGlobe, OTEnet, Globul (Bulgaria) and, most recently, ITC (Saudi Arabia).

Network Inventory/Network Assurance/Service Assurance

Network inventory is a system that maps the entire network to track the dependencies between individual network elements and services provided to customers. This provides an operator with information for provisioning, network and services planning, life cycle management, Quality of Service ("QoS") management and other OSS processes. We have delivered several systems to clients, including OTE, ITC and MGTS. In most cases, delivering these systems entails advisory services, customizing, integration and data migration services.

Our Intracom Telecom unit has been active in the network assurance field since 1998. We offer network assurance solutions built around a product supplied by Agilent Technologies. By monitoring signaling on the network, the system allows operators to perform end-to-end network and service analysis across multiple transportation technologies. We have a strong record in this field and have delivered 12 large implementations across Europe and the Middle East.

Service assurance entails the efficient use of network elements, reduced network and service management costs, assurance of quick time-to-market for new services with OSS support and improving quality of service. We have delivered several service assurance projects since 2000, including to Cosmote (Greece), Globul (Bulgaria), Cosmofon (Macedonia), AMC (Albania) and Vodafone (Greece).

Performance Management

Our performance management solutions provide the operator with a tool to measure the performance of each network and system component and network usage patterns. As a result, shortfalls in performance and service availability are detectable. Such a tool allows the operator to redeploy network resources to improve overall performance, to detect and remedy faults in the network and to mitigate costs or loss of revenues as a result of network performance. Our major customers include Vodafone, the Greek PTT, Cosmote, Turkcell and ITC.

Outsourcing

Lottery Systems

A lottery operator's network consists of a powerful and very reliable central software system running the lottery games and applications which is connected in real-time to lottery terminals installed at various locations across the country of the operator. Through our partnership with Intralot, we develop and offer lottery systems which include a wide range of products covering the requirements and needs of almost any lottery operator. Our Coronis family of lottery terminals includes state-of-the-art products offering an easy-to-use and stable solution for lottery on-line games, video games, instant tickets validation, self-service gaming and various types of betting. We believe the advanced technology, security and reliability of our lottery systems make it a leading solution in the market. Our key competitive advantages are the friendly and elegant graphic user interface and the high-performance and cost-effective units which we provide.

Software Development

Our software development center performs work primarily for Ericsson, follows Ericsson product road-maps and implements new requirements for the evolution of Ericsson AXE switching nodes in wireless and wireline applications, including the latest WCDMA/UMTS releases and multi-service networks. This department works in conjunction with Ericsson research and development staff and has provided consultancy services in the field of software engineering to Ericsson's subsidiary companies since 1989.

Our software development center has expertise in circuit switching and packet switching technologies, GSM and UMTS standards and applications, core network technologies, software engineering (such as requirements management, development and verification models), project management, operational development (such as quality management, performance management and improvements). This department currently employs 283 people who work in Peania, Patra, and Thessaloniki, Greece.

Network Management

We provide 24-hour operations support of the client's network, including network monitoring, routing of traffic for optimal performance, tariff support and routine maintenance. For example, we provide network management services to CALLAX in Germany from our offices in Prague.

Systems Integration and Professional Services

Our systems integration activities focus on the integration of our own products and third party best-of-breed products and the implementation of end-to-end solutions for complex multi-service networks. Our local presence combined with extensive experience and know-how allows us to successfully complete complex, large-scale telecommunications projects on a turn-key basis. We offer services for the entire network life cycle, including planning, design and implementation, operation and maintenance, and optimization. We also provide technical support service in accordance with a service level agreement for each client and are able to deliver on-site and remote support. Our workforce consists of a large number of vendor-certified engineers with in-depth knowledge and expertise.

Customers

Our largest customers include Sistema subsidiaries (primarily MTS, UMC, Comstar (including MGTS) and Invest-Svyaz-Holding), the OTE Group of Companies, and the COSMOTE Group of Companies, which represented 38.4%, 15.6% and 10.2% of the division's revenues, respectively, for the year ended December 31, 2005 (on a pro forma basis) and 35.8%, 7.7% and 7.0% of the division's revenues, respectively, for the nine months ended September 30, 2006. No other customer represented more than 10% of the division's revenues during these periods. Our sales to major customers are shown in the following table.

Customer	Year ended December 31, 2005[(1)]	Percentage	Nine months ended September 30, 2006	Percentage
	(in millions of U.S. dollars, except percentages)			
MTS	112.0	18.9%	66.8	13.3%
OTE Group of companies (OTE, Romtelecom Armentel[(2)] and Otenet)	92.8	15.6%	38.9	7.7%
UMC	66.4	11.2%	79.6	15.8%
COSMOTE Group of companies (Cosmote, Cosmo Bulgaria, AMC and Cosmofon)	60.6	10.2%	35.2	7.0%
Comstar (including MGTS)	26.1	4.4%	16.0	3.2%
Invest-Svyaz-Holding	18.2	3.1%	15.8	3.1%
Vodafone Group	18.3	3.1%	12.0	2.4%
ERICSSON	16.4	2.8%	12.6	2.5%
INTRALOT (Greece)	14.1	2.4%	29.5	5.8%
Integrated Telecommunications Company (Saudi Arabia)	11.5	1.9%	24.3	4.8%
OPAP SA (Greece)	8.9	1.5%	24.0	4.8%
Telecom Srbija	7.1	1.2%	8.8	1.7%
Ministry of Justice of Romania	—	—%	22.8	4.5%

(1) Presented on a pro forma basis to include Intracom Telecom as though it had been acquired on January 1, 2005.

(2) OTE sold its stake in Armentel in November 2006.

As of September 30, 2006, we had customers in more than 60 countries. Our major customers are set out in the table below:

Postal, Telephone and Telegraph (PTTs)	Mobile	Fixed-line/ Alternative Providers	Public sector, Financial institutions and other
Albtelecom (Albania)	ABC (Albania)	Belgacom (Belgium)	AHK (Cyprus)
Armentel (Armenia)	AMC (Albania)	BTC (Bulgaria)	Athens International Airport
BH Telecom (Bosnia Herzegovina)	Cosmo Bulgaria EAD (Bulgaria)	CALLAX (Germany)	Compania Nationala Loteria (Romania)
Moldtelecom (Moldova)	Cosmofon (Macedonia)	Comstar UTS (Russia)	ERICSSON (Sweden)
MTT (Russia)	MTC (Kuwait)	Forthnet (Greece)	Hellenic Post (Greece)
OTE SA (Greece)	MTS (Russia)	Hellas On Line (Greece)	National Bank of Greece
PTK (Kosovo)	Polkomtel (Poland)	HT - Hrvatski Telekom (Croatia)	National Railways (Greece)
Romtelecom (Romania)	Saudi Telecommunications Company (Saudi Arabia)	ITC (Saudi Arabia)	OPAP — Football Match Prognostics (Greece)
STE (Syria)	Simobil (Slovenia)	Matav (Hungary)	Piraeus Port Authority (Greece)
	SMARTS (Russia)	MGTS (Russia)	Pireaus Bank (Greece)
	TIM Hellas (Greece)	Paltel (Palestine)	Postal Savings Bank (Greece)
	UMC (Ukraine)	PT Telkom (Indonesia)	Public Power Corporation (Greece)
	Umniah Mobile Company (Jordan)	Telecom Srbija (Serbia)	Social Security Institution (Greece)
	Vivacell (Armenia)	Teledome (Greece)	South Oil Company (Iraq)
	Vodafone (Albania)	Tellas (Greece)	
	Vodafone (Egypt)	Telmex (Mexico)	
	Vodafone (Greece)		
	Vodafone (Hungary)		

Our customers typically award contracts on the basis of a pre-qualification process and an open tender. We generally contract directly with the customer but occasionally act as a sub-contractor, particularly in cases where the pre-qualification process would preclude our participation (*i.e.*, only local companies are allowed to participate in the tender process and we do not qualify as a local company). In a number of cases, we have been awarded contracts without an open tender based on long-standing business relationships.

Sales, Marketing and Customer Support Services

Sales

As of September 30, 2006, we had 324 employees in our sales and marketing department, with main sales centers located in Athens, Greece, Moscow, Russia, and Prague, the Czech Republic. We emphasize local business development and maintain sales offices in the United States, Ukraine, France, India, Malaysia, Romania, Bulgaria, Hungary, Croatia, Slovakia, Slovenia, Serbia, Macedonia, Bosnia and Herzegovina, Moldova, Albania, Armenia, the United Arab Emirates and Libya. In 2006, we initiated the establishment of new offices in Syria and Saudi Arabia which are expected to be fully operational in the first quarter of 2007. In addition, we plan to extend our sales network by opening offices in Germany, Austria, Poland, Sweden, Spain and Egypt in 2007. In markets where we do not have local representation, we generally enter into partnerships with established local companies or appoint distributors to promote, sell and support our products and services.

We are continuing to integrate our Strom Telecom and Intracom Telecom units and optimize our geographical sales coverage. Our Strom Telecom unit will concentrate its sales efforts on the CIS market while our Intracom Telecom unit, with its broader range of product offerings, will lead our sales efforts in the EEMEA region. Once our sales departments are fully integrated, our product specialists and solution design engineers in our Athens, Moscow and Prague offices will provide support to the regional sales teams.

Intracom Telecom's success in delivering large-scale projects on a turn-key basis to operators in Greece and the Balkans allows us to extend that success to neighboring markets in the Middle East and Africa. Our established customer base and our deep knowledge of the cultures in our home markets provide a competitive advantage. Furthermore, we have a close working relationship and an in-depth knowledge of the needs of the Sistema group and, as a result, we have been able to secure major contracts with Sistema group companies. From our base in Moscow, we have been able to expand to the other CIS countries.

We work closely with export banks and with the Czech and Greek export credit agencies (Export Guarantee and Insurance Corporation and Export Credit Insurance Organization, respectively) to provide financing for our products. As part of our strategy, we have developed alliances with global telecommunication equipment vendors such as Ericsson. Our Intracom Telecom unit also provides systems integration services and has worked with top vendors, including Cisco Systems, Alcatel, Ericsson, Logica, Hewlett-Packard, Intec and Openet.

Marketing

Our marketing offices are located in Athens, Greece and Prague, the Czech Republic. Our marketing strategy involves customer targeting, pricing strategies and a number of marketing initiatives to maintain and strengthen our regional brand awareness. We participate in business development missions in countries of interest, which are usually organized by the local embassies and commercial chambers, and we also arrange workshops to enhance our customer relationships. Our promotional activities include advertising campaigns, placing banners on targeted websites, and the design and distribution of product brochures. We also participate in major international and regional telecommunication exhibitions and conferences worldwide.

Customer Support Services

We provide customer support services in accordance with a service level agreement for each client. As of September 30, 2006, we employed 1,454 customer support service staff located predominantly in Russia, the Czech Republic, Romania, Armenia and Greece. The quality of our customer support services is critical to attracting and retaining clients. Our customer support services include consultancy services, technical training, operation and maintenance services, and technical support services related to our network equipment, applications and billing solutions.

We operate 24-hour global technical support centers in Moscow, Russia, Prague, the Czech Republic and Athens, Greece and provide help desk services, remote support, on-site support, software updates and upgrades, and emergency services. In addition, we operate training centers for our customers and staff.

Our regional offices maintain a close relationship with our customers and provide timely support for project management, project implementation, technical support and other pre-sales and after-sales services.

Research and Development

Our product strategy guides our research and development activities. A key element of our strategy has been the development of proprietary technology and know-how. We believe that the continual introduction of high-quality products is essential to maintaining our competitiveness in a rapidly changing technological environment. We have developed proprietary technology and know-how in the areas of hardware architecture, software design and algorithms for switching equipment, connectivity and service provisioning logic, wireline and wireless access and transmission systems, terminal devices, content delivery network products, and integrated network solutions. The skills and expertise we have accumulated through our research and development activities are key elements of our competitiveness.

We spend a significant proportion of our revenue on research and development each year. For the year ended December 31, 2005 (on a pro forma basis) and the nine months ended September 30, 2006, the division spent $41.5 million and $26.9 million, respectively, on research and development activities, representing approximately 7.0% and 5.3% of total division revenues for the respective periods. In addition, our use of highly qualified professionals from the CIS provides a competitive advantage because it allows us to conduct the same quality of research and development as our competitors, yet at a relatively low cost.

Our research and development employees are highly qualified. More than 1,660 professionals were engaged in research and development as of September 30, 2006, of which approximately 84.0% held university degrees in a technical or scientific field. Our Strom Telecom unit has two principal research and development centers located in Prague and Moscow. Eight of Strom Telecom's subsidiaries also conduct research and development activities and assist the two principal research and development centers. We have a long-standing partnership with the Russian Academy of Sciences and our funding of research at this institution has been a valuable tool for recruiting highly qualified personnel. We have similar relationships with several of Russia's top technical universities. To strengthen our research and development and to use the synergies with local universities, our Intracom Telecom unit created research and development groups in the main cities of Greece outside of Athens. The majority of the staff is located in a central research and development center in Athens with the remainder located in Patras, Thessaloniki and Xanthi. In addition, over the past five years Intracom Telecom has participated in 80 European Union research programs in which strong collaboration has taken place with other European companies and several universities.

Our membership in industry forums and standards-setting bodies such as the European Telecommunications Standards Institute, Global System for Mobile Communications, Digital Subscriber Line, Worldwide Interoperability for Microwave Access and the TeleManagement Forum allows us to participate in the formation of technical standards in our industry.

The following table provides details of our principal research and development centers.

Location	Number of engineers as of September 30, 2006	Date of establishment	Technological focus
Moscow, Russia	372	1996	BSS software development
Prague, Czech Republic	331	1995	TDM and IP switching, hardware and control architecture, and applications and protocols
Athens, Greece	304	1987	DSL technologies, VoIP & narrowband systems, microelectronics, system verification, wireless access systems, wireless transmission systems, system modeling & DSP, embedded software, element management software, content management, content delivery networks, mechanical design, PCB design, EMC/safety and environmental testing and lottery systems
Novosibirsk, Russia	99	2002	TDM switching/IP switching—hardware architecture, control architecture and applications/protocols
Patras/Thessaloniki, Greece	24	1999	Embedded software and microelectronics
Xanthi, Greece	17	2000	Wireless access and transmission systems and technologies and element management software

In addition, we have other research and development centers in Ekaterinburg, Kazan and St. Petersburg, Russia, Khmelnytskyi, Ukraine and Bratislava, Slovakia.

Intellectual Property

We use proprietary technology and processes in many facets of our business and hold several patents and trademarks for technologies that are used in our products. Our key intellectual property is related to our own solutions and products relating to hardware and software design and algorithms for switching equipment, BSS/OSS software, wireline and wireless access and transmission systems, terminal devices and integrated network solutions.

We rely upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements, and patent, copyright and trademark laws to protect our intellectual property rights.

Patents

Our Intracom Telecom unit has 10 registered patents. Most of these have been registered with the Industrial Property Organization of Greece, but we also register applications with the European Patent Office.

Four of these patents (burst shaping technique, clock acquisition and tracking for burst communications, low jitter power detector for time division multiple access communications, and receiver structure for offset differential quadrature phase shift keying) are related to the unit's IAS-W product which is a digital wireless access system based on point-to-multipoint technology offering a wireless backbone with wireline or wireless last mile access.

Other recent material patents include a synthesizable VHDL model of a multi-channeled DMA-engine for an embedded bus system, a wideband printed antenna system, and a DC offset correction circuit and AGC in zero-if wireless receivers. These patents resulted from research conducted with the European Union and from internal research and development projects, and constitute solutions and know-how that can be used in future telecommunication products.

Trademarks

Our Strom Telecom unit has registered the following trademarks in the Czech Republic: Strom telecom, which is the unit's brand and logo, and FORIS, TENNET and MEDIO, which relate to the three product families developed and marketed by the unit.

The Intracom Telecom unit's trademarks netCon+, NetCon, NetRoute, NetMod and NetVia are registered in Greece. The application for the trademark Intracom Telecom in Greece is still pending. The trademarks netCon+, NetCon, NetRoute, NetMod and NetVia are related to the ISDN network termination units that have been developed by Intracom Telecom in order to provide high-quality ISDN services to the customers and high speed Internet access which are also compatible with existing analog equipment.

Production, Suppliers and Quality Control

Production

Our two main manufacturing facilities are located in Votice, the Czech Republic and Bucharest, Romania. Secondary facilities exist in Athens, Greece and Zelenograd, Russia. These facilities have the capacity to meet our manufacturing requirements for the next three years without major additional investment. Each facility is ISO 9001 certified and our production personnel are trained to the highest industry standards. Both of our main production facilities, which share the same production processes and technologies, are capable of manufacturing our TDM and NGN products.

As of September 30, 2006, we employed 830 production staff. We have begun integrating our Intracom Telecom unit's production requirements into our overall production strategy. For example, a portion of our Coronis lottery terminals, which have historically been produced in our Bucharest facility, are now manufactured in Votice.

MEDIO and TENNET switching equipment is manufactured in Votice. In 2005 and 2006, we extended and modernized the production lines. We employ the latest manufacturing technologies for surface mounting components and soldering, testing and inspection in the production of our switching equipment. These include PCB screen printing, 3D soldering and inspection, JUKI pick and place, intelligent component feeders, wave, vapor phase, re-flow and hot flow soldering techniques. At our facilities in Votice and Zelenograd, we manufacture our own chassis, frames and cabinets which house the switching electronics. Inspection technologies include X-ray testing and automatic optical inspection. The facility is certified for production according to EU, U.S. and CIS manufacturing standards and ROHS lead-free production. The Votice facility received ISO 14001 certification for the production of MEDIO and TENNET in 2006. We provide EMS manufacturing services to a limited number of clients at our Votice facility.

IAS-W, WiBAS wireless access products, DSLAM/MSAN access products and terminals are manufactured in our Athens and Bucharest facilities. Our Athens facility specializes in pilot production but also performs low to medium volume production and the manufacture of printed circuit boards. The Bucharest facility is mainly used for mass production in order to take advantage of lower labor costs. To further reduce our costs, we are restructuring our supply chain and enabling raw material deliveries to be made directly to the factory and shipments of final products directly to clients. We deployed a new ERP system in October 2006, which not only contributes to the reduction of the production costs but also improves our lead time to customers.

We employ flexible manufacturing processes in order to manage the workload at our facilities. Most units work in two 8-hour shifts which may be extended to three shifts for continual operation, including weekends. ERP systems are used for production planning/scheduling and for inventory control. We produce upon customer orders and maintain a limited finished goods inventory. Production lead times range from five days to 10 weeks depending on the availability of critical components in work-in-progress. In the case of our switching products, approximately 80% of the components are common across all product variants allowing for flexible and efficient production planning.

The following table sets out the approximate area and functions of each of our manufacturing facilities.

Location	Approximate area	Technologies employed	Products manufactured	Production capacity
Votice, the Czech Republic	16,000 square meters	Microelectronic assembly/ surface mount technology Mechanical production of metal frames and chassis for mounting electronics	Telecommunications network switching equipment for MEDIO and TENNET products Electronics sub-assemblies for security, automotive, medical, audio industries	140,000 semiconductors chips mounted per hour
Bucharest, Romania	4,000 square meters	Microelectronic assembly/ surface mount technology	Wireline & wireless access systems, transmission systems, terminals, lottery systems, others.	64,000 semiconductors chips mounted per hour
Athens, Greece	1,800 square meters	Microelectronic assembly/ surface mount technology Printed circuit boards manufacturing	Wireline & wireless access systems, transmission systems, terminals, lottery systems, others.	24,000 semiconductors chips mounted per hour
Zelenograd, Russia	1,100 square meters	Microelectronic assembly/ surface mount technology	Printed circuit board assemblies	33,000 semiconductor chips mounted per hour

None of our facilities have experienced significant interruptions due to fire, power failure, power shortages, hardware or software failures, floods, computer viruses or other events beyond our control.

In-process inspection and testing is conducted by production personnel for each unit produced at predetermined inspection/test points that are identified in the production documentation. Inspections and tests are carried out by competent personnel in accordance with documented inspection/test procedures and our staff is trained in accordance with J-STD-001, "Requirements for Soldered Electrical and Electronic Assemblies."

Printed circuit assemblies undergo visual inspection, after soldering operations, X-Ray inspection of ball grid array components, after SMD reflow (sampling) as well as functional testing prior to release to next stage in assembly. All major subassemblies undergo visual inspection after assembly operations and functional testing and all products undergo a final factory testing procedure prior to shipment.

Our products undergo extensive testing using automatic testing equipment, complemented by a full range of common testing equipment such as spectrum analyzers, traffic generators and oscilloscopes. We believe that our testing equipment is based on the latest technology.

Suppliers

The majority of our suppliers are subsidiaries of international companies. As a rule, all suppliers are required to be ISO certified. For the year ended December 31, 2005 (on a pro forma basis) and the nine months ended September 30, 2006, purchases from our largest supplier amounted to approximately $28.0 million and $19.1 million, respectively.

We follow a rigorous selection process to ensure that suppliers meet our quality and performance requirements to become approved suppliers. We invite competitive bids from at least of two qualified suppliers. Successful bidders enter into framework agreements with us that include agreed upon preliminary prices. During the year, we issue purchase orders which specify agreed upon quantities and prices after considering our needs and the market conditions at the time of delivery. Our raw materials and component prices are determined by open bidding or arm's-length negotiations with suppliers. We have not experienced any material difficulties in sourcing essential materials and components from our suppliers.

Our top five raw material and component suppliers for the year ended December 31, 2005 (on a pro forma basis) and the nine months ended September 30, 2006 were:

Supplier	Country	Purchased amount for the year ended December 31, 2005[(1)]	Purchased amount for the nine months ended September 30, 2006
		(in millions of U.S. dollars)	
Unitec Trading Company	United States	14.3	16.4
EBV Elektronik	Greece/Germany	5.5	3.1
Motorola GmbH	Germany	2.7	3.4
Peripheral Dynamics	United States	1.5	4.3
Portwell	Taiwan	1.2	3.0

(1) Presented on a pro forma basis to include Intracom Telecom as though it had been acquired on January 1, 2005.

Our top five system suppliers for the year ended December 31, 2005 (on a pro forma basis) and the nine months ended September 30, 2006 were:

Supplier	Country	Purchased amount for the year ended December 31, 2005[(1)]	Purchased amount for the nine months ended September 30, 2006
		(in millions of U.S. dollars)	
Cisco Systems	Netherlands	28.0	19.1
Logica CMG	Netherlands/Ireland	27.7	12.1
Alcatel	France/Italy/Romania	20.6	16.8
Ericsson	Sweden/Greece	5.2	9.5
Agilent Technologies	Switzerland	8.6	3.9

(1) Presented on a pro forma basis to include Intracom Telecom as though it had been acquired on January 1, 2005.

We do not rely on any single supplier for our raw materials or components. In most instances, we purchase supplies from at least two to three suppliers for each type of raw material or component. This arrangement reduces our risk of over-reliance on a single raw material or components supplier.

Quality Control

Strom Telecom and Intracom Telecom have implemented a Quality Management System ("QMS") in accordance with ISO 9001:2000 that applies to all of the company's activities, including design, manufacturing, installation and customer service. Our Intracom Telecom unit has been ISO 9001 certified since 2001 and our Strom Telecom unit has been ISO 9001 certified since 2004. Adherence to the QMS is monitored by scheduled and unscheduled audits performed by our Quality and Environment teams ("Q&E"). The Q&E teams are assigned the responsibility for establishing principles and methodologies in quality and environmental management, supervising the implementation of the respective management systems and contributing to improvements. Our Q&E teams are based in Athens, Greece and Prague, the Czech Republic. Our Strom Telecom unit is in the process of implementing the Capability Maturity Model for software development. While we believe that our design and manufacturing processes are of high quality, our products nevertheless undergo rigorous testing prior to release for shipment. The quality of our services is monitored and analyzed by our customer technical support department.

We have implemented quality control procedures as part of our procurement process. We provide feedback to our key suppliers as part of our own quality control procedures in order to ensure the quality of our materials and components.

Our quality control procedures are designed to aid in the continuous process of product improvement. Customers are involved in all customer-critical parameters of product design and design changes. Based on the customer feedback, we re-evaluate and improve on our product design and quality control standards, in order to ensure customer satisfaction.

We constantly seek customer feedback during the installation and maintenance process and through our customer support and servicing activities, including the company's call center. After we process and analyze this information, we implement improvements in the design, manufacturing and/or installation processes as may be necessary. The quality and performance of the products and services provided to customers are measured systematically on a per project or contract basis. The process of identifying, planning and monitoring of improvements is designed to enhance customer satisfaction, as well as improve our efficiency and competitiveness.

We place an emphasis on ensuring the health and safety of our staff in the workplace, and we have established detailed internal regulations on production safety. We have a system for providing health and safety training to all employees.

Market and Competition

We face intense competition in all market segments in which we operate. Competitive factors in these markets include pricing, payment terms, technology, product design, performance, quality and cost of ownership to the client, ability to manage projects risks, customer support services and an in-depth understanding of customer needs.

In our regions of operation, we compete against global vendors such as Siemens-Nokia, Ericsson, Alcatel-Lucent, Nortel, Motorola, Huawei and ZTE, each of whom is present in varying degrees in most of our markets. We also face regional and local competitors such as Iskratel and CBOSS who are active in one or more segments. Finally, we face competition from global vendors specializing in one or two of our market segments such as Portal or Intec in BSS/OSS products, and Cirpack, Italtel and Netcentrex in NGN switching. The markets in which we operate may be classified into seven segments as follows: digital switching, NGN switching, BSS/OSS, wireline access systems, wireless access and transmission systems, content delivery systems and systems integration and professional services.

To compete successfully in any one segment, a vendor must be able to achieve economies of scale to finance their research and development investments and to maintain the skills and know-how to integrate products into the client's infrastructure in an environment of rapidly changing technologies. In addition, a vendor must have a good reputation and the financial strength to convince potential clients of its ability to provide support and enhancements over the life of the product and to provide the support locally. Finally, most of our products and solutions require customization to the client's specific requirements.

We believe that we have the scale and depth of professional experience in the switching, BSS/OSS and systems integration segments and have proven to be a reliable long-term partner that can provide local support.

Digital Switching/NGN Switching

The table below shows the estimated value of the market for each of digital switching equipment, NGN switching equipment and BSS/OSS IT solutions. The BSS/OSS figures exclude systems integration services.

Digital Switching	2005	2006	2007	2008	2009	2010
	(in millions of U.S. dollars)					
World	4,723	2,919	1,586	1,125	743	477
EMEA	1,844	1,270	997	667	414	239
NGN Switching						
World	4,202	5,512	6,688	8,022	9,026	10,686
EMEA	1,381	1,810	2,230	2,707	3,030	3,911
BSS/OSS						
World	13,731	14,405	15,068	15,695	16,399	17,248
EMEA	5,015	5,328	5,637	5,879	6,197	6,565

Source: Dittberner Associates

The table shows a declining market for digital switching but strong growth in NGN equipment, which reflects a shift in technology as operators migrate from TDM switching systems to NGN IP switching in the EMEA region. The figures also show steady growth in the BSS/OSS market as operators and new market entrants invest in systems capable of managing the new networks and services efficiently.

Our FORIS and TENNET products place us in two strong growth markets. We believe that FORIS and TENNET address the core investments that telecommunication operators will be expected to make over the medium term as they upgrade their networks to provide new services. For digital switching in the CIS, we position ourselves as an experienced, locally based company with in-house expertise to provide a complete solution including professional services at an attractive price. We are able to compete against global switch vendors on the basis of our ability to provide a complete solution tailored to the clients' requirements and which is supported locally at competitive rates.

According to Dittberner Associates, the digital switching market is dominated by the top four global vendors: Huawei, Siemens, Alcatel and ZTE. Collectively, these vendors had an approximate 89% share of the global market in 2005. The remaining 11% was shared between more than 50 small- to mid-sized vendors including TSD. In the NGN switching market segment, the top five global vendors are Huawei, Nortel, Siemens, ZTE and Tecelec, which collectively had an approximate 74% market share in 2005. Cisco Systems ranks ninth with a market share of 2.54%, while a group of mid-sized vendors specializing in NGN equipment such as Sonus, Netcentrex, Cyrpack, Italtel and Metaswitch had an approximate 12% share of the market.

Content Delivery Networks

According to the Media Research Group ("MRG"), the number of global IPTV subscribers will increase significantly from 2005 to 2009, with Europe leading the market. The North American market is expected to increase at a slower rate due to the slower rate of optical fiber deployment.

MRG also forecasts that global IPTV system revenues will grow from $740 million in 2005 to $4.3 billion in 2009, a compounded annual growth rate of 56%. This forecast shows that the market for IPTV services and equipment will be particularly strong in Europe, Asia and North America, which we expect will provide us with significant opportunities to market our solutions.

According to Infonetics Research, North American, European and Asia Pacific service providers participating in its study spent on average nearly 40% of their capital expenditures on triple play network equipment in 2005. The study found that the majority of service providers plan to further increase capital expenditures over the next 12 months on IPTV equipment, broadband CPE, broadband aggregation equipment and voice over broadband equipment, with expected revenues growth in all areas of triple play services in the next 12 months. Infonetics Research concludes that by 2009 worldwide IPTV equipment sales will surge to $6 billion, and service revenues will jump to $38 billion.

According to IMS Research, the worldwide IPTV market will grow to approximately 27 million households by the end of the decade. As a region, Western Europe is expected to lead the worldwide IPTV market through the end of the decade, with approximately 12.9 million households by 2010.

In the IPTV market segment, Alcatel and Microsoft joined forces to target telecommunication and cable television operators as well as consumers that intend to use their PCs as their home entertainment platform. Other competitors include Myrio, acquired by Siemens, Minerva's iTV Manager, Orca Interactive, which has partnered with IBM, Kasenna, which targets the video-on-demand markets, Thales Tandberg Television, which is a well-known vendor of central office equipment that aggregates content from various sources, encrypts and streams the content, Envivio, which was spun off from France Telecom, and Infogate, a relatively new entrant in the IPTV middleware market offering Chinese content. Our early implementations of IPTV by Conklin-Intracom in the U.S. market place us in a good position to capture a share of this expanding market.

Wireline Access Systems

Gartner estimated in 2005 that the value of wireline access systems in the EMEA region was $3.2 billion and was expected to grow to $3.6 billion by 2009. This is a highly competitive market segment as products are more standardized and prices are driven by volume. According to Infonetics Research, in the first quarter of 2006, the major competitors in the EMEA market and their respective market shares were Alcatel (33%), Siemens (16%), Ericsson (13%), Huawei (10%), ECI (7%), Fujitsu (5%), Lucent (4%), Nokia (3%), Zhone (2%), ZTE (1%) and UTStarcom (1%). Wireline broadband penetration in the markets where we are strongest, namely in Eastern Europe, the Middle East and CIS, is well below the levels in Western Europe and we expect these markets to grow in the near term.

Wireless Access and Transmission Systems

We offer a complete portfolio of point-to-point microwave solutions which provide an array of transmission capacities for fixed and mobile networks. In addition, our point-to-multipoint broadband wireless access ("BWA") product includes state-of-the-art systems which provide all the services required by urban and rural subscribers, such as WiMAX, and meet the needs of fixed and mobile operators in backhauling their high-bandwidth access networks.

Due to declining equipment costs, the market value for point-to-point (PtP) equipment is expected to decline from 2007 to 2010. However, the market for BWA systems operating at frequencies above 11 GHz is projected to grow from 2007 to 2010. Projected worldwide market values by type of wireless technology are presented in the table below.

Wireless technology annual revenues forecast	2005	2006	2007	2008	2009	2010
		(in millions of U.S. dollars)				
Point to point	1,826	1,828	1,787	1,723	1,649	1,578
BWA > 11 GHz	344	485	596	656	664	640
WiMAX	28	414	1,081	2,173	3,239	3,368

Source: Pioneer Consulting, Gartner, 2006

WiMAX sales are expected to increase dramatically beginning in 2007 as a result of the first wave of certified products reaching the market. During 2007 to 2008, WiMAX products are expected to be widely present in notebook computers. Europe represents a strong market for wireless technologies because the wireless infrastructure in the region is more developed than the fixed-line infrastructure. We expect our WiBAS product to benefit from this market growth. The table below shows annual revenues forecasts for various wireless technologies in Europe.

Wireless technology annual revenues forecast	2004	2005	2006	2007	2008	2009	2010
		(in millions of U.S. dollars)					
Point to point	521	495	474	448	417	386	358
BWA > 11 GHz	74	110	147	171	177	170	156
WiMAX	—	—	183	440	885	2,087	3,416

Source: Pioneer Consulting, Gartner, 2006

Major players in the wireless systems market include Ericsson, the leader in GSM/UMTS cellular systems, Alcatel, which has an extensive wireless product portfolio, Nokia, Siemens, NEC, which has an extensive portfolio of microwave PTP solutions, Lucent, Motorola and Nortel, a leader in CDMA technology. Vendors of wide-product portfolios such as Ericsson, Alcatel and Siemens have a distinct advantage because they are able to provide turn-key solutions.

BSS/OSS

In the BSS/OSS market segment, the largest competitors include Comverse (which recently acquired CSG Systems), Amdocs, Convergys, Portal (now part of Oracle), LHC, Telcordia and Intec. However, the market is highly fragmented with no single vendor commanding more than a 10% share of the global market, according to our internal estimates. Some of the larger competitors and many of the smaller players will work with regionally based systems integrators to offer their solutions. We compete on the basis of our turn-key project experience with large operators and our ability to provide a complete internally developed BSS solution (including the IN platform in the case of real-time billing), guarantee the total cost of ownership to the client and support the system with local resources. We are one of the few BSS vendors that has extensive switching experience and offers its own NGN product.

Dittberner Associates estimates that the value of the CIS market in 2005 was $626 million for digital switching and $370 million for BSS/OSS, excluding implementation and integration services. If implementation and integration services were included in these estimates, the market for BSS/OSS may be substantially higher. These two business segments account for approximately 15% of the estimated $6.6 billion invested by telecommunication service providers in the CIS during 2005.

We have positioned ourselves as a regional integrator. We are aiming to become the regional BSS/OSS integration leader by providing a unique and comprehensive portfolio of services, including implementation and solution planning, project and vendor management, software development, configuration and deployment, service readiness and follow-up engineering and optimization.

Systems integration and professional services

Systems integration and professional services target a large regional market in a highly competitive environment. Competitors include both regional integrators and large multinationals (such as Atos Origin, Accenture, IBM Global Services and Hewlett-Packard). However, regional integrators often lack the size, expertise and know-how required to cater to complex and rapidly changing customer needs, while large multinationals lack the required local understanding. We believe that our strength is that we are able to offer our customers the best solution for a given product category while providing the necessary understanding of the local environment.

IT Solutions

Overview

We are a leading provider of systems integration and IT related services and a distributor of computer components and software in the CIS. Our IT Solutions division is comprised of the Kvazar-Micro group which was founded in 1990 and has its main offices in Kiev, Ukraine and Moscow, Russia. In addition, we have sales offices for our distribution business in Budapest, Hungary, Prague, the Czech Republic, Vilnius, Lithuania, Nicosia, Cyprus, Dubai, United Arab Emirates and Amsterdam, The Netherlands and a sales office in Almaty, Kazakhstan for our systems integration business.

We have long-standing certified partnerships with global vendors of enterprise applications such as enterprise resource planning ("ERP") solutions from Oracle and other enterprise applications from Cisco Systems, Microsoft, IBM, Sun Microsystems and Nortel and with global vendors of computer components and software, including Intel, Western Digital, Seagate, Hewlett-Packard and Microsoft. Our systems integration and IT related services business served 217 clients in 2005 and 312 clients in the first nine months of 2006. Our distribution business served 1,436 clients in 2005 and 849 clients in the first nine months of 2006.

As of September 30, 2006, we employed 1,103 people with 63.2% of our employees working in our systems integration and IT related services operations, including business consulting, IT infrastructure, telecommunications integration and software development, and 6.4% our employees working in our distribution operations. We have increased our systems integration workforce from 50.2% of our employees in 2004 to 63.2% of our employees in 2006. In 2005, our IT training center in Kiev employed 12 instructors and certified over 1,000 of our clients' employees and approximately 150 of our own staff in subjects such as Microsoft, Sun Microsystems, Java, Cisco, Novell, Oracle, Lotus, IBM and Linux products.

Our revenues were $468.4 million and $347.7 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. Our distribution business accounted for 80.0% and 82.2% of our revenues for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. In addition, computer component and software sales accounted for approximately 85.5% and 84.4% of our systems integration and other IT related services business revenues for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. Our revenues from systems integration increased from 11.3% of our revenues for the year ended December 31, 2004 to 17.8% of our revenues for the nine months ended September 30, 2006.

A significant portion of our revenues are from the Sistema group. In July 2004, Sistema purchased 51.0% of Kvazar-Micro, which we subsequently acquired from Sistema in October 2005. We exercised control over Kvazar-Micro from the time it was acquired by Sistema through the participation of our representatives on its management board. Our sales to the Sistema group for the year ended December 31, 2005 and the nine months ended September 30, 2006 were $68.7 million, representing 14.7% of our revenues and $41.0 million, representing 11.8% of our revenues, respectively. For the year ended December 31, 2005 and the nine months ended September 30, 2006, 73.2% and 66.5% of our systems integration revenues were from Sistema group companies, respectively.

Competitive Strengths

Our key competitive strengths include:

Strong technological partnerships with global leaders in the IT industry

We have long-established technological partnerships with global leaders in the IT industry for both our systems integration and our distribution businesses. For our systems integration business, we have strong partnerships with Oracle, Cisco Systems, Microsoft, IBM, Sun Microsystems and Nortel. For example, we began selling Oracle products in Ukraine in 1997 and primarily focused on offering Oracle's E-Business Suite ("OEBS"). As of September 30, 2006, we were one of the largest distributors of OEBS in Russia and Ukraine and held the status of Oracle's Certified Partner in the CIS.

For our distribution business, we have strong partnerships with Intel, Microsoft and Western Digital. For example, we have a 15 year relationship with Intel and are one of the largest distributors of Intel CPUs in the CIS.

As one of the few companies in the CIS to have certified partnerships with these companies, we are able to offer the latest technological innovations and to deliver hardware and software solutions from global technology leaders to our customers. Our technological partnerships combined with our ability to offer industry-specific, customized systems integration solutions allows us to be a one-stop provider for many of our customers which further strengthens our existing client relationships. We believe that our solid reputation and our deep understanding of the local markets position us as a preferred partner for many of the largest global vendors.

Ability to attract and retain highly qualified professionals at a relatively low cost

We are able to attract and retain highly qualified professionals from lower-cost regions of the CIS such as Ukraine and the eastern regions of Russia who we staff on projects throughout the CIS. As of September 30, 2006, approximately 70% of our employees were Ukrainian. This provides a competitive advantage over competitors who rely primarily on professionals based in major Russian cities such as Moscow. As a result, we are able to provide a high quality of service while maintaining relatively low labor costs.

Both Ukraine and Russia have a legacy of high technology research and development and expertise inherited from the former USSR. As a result, in addition to lower labor costs, our professionals are able to offer complex industry-focused and client-tailored IT solutions and services which require significantly more expertise than is required for discrete outsourcing projects.

Regional leadership in the CIS

We are one of the largest IT companies in the CIS by revenue and a leader in this market. We have a good reputation based on our industry expertise, knowledge of the home market, large client base, portfolio of successfully completed projects and good relationships with the Russian and Ukrainian governments. Our reputation and affiliation with the Sistema group provides us with opportunities to compete for large IT projects, to establish partnerships with IT industry leaders and to attract and retain highly qualified personnel.

Large and geographically diverse client base

We have served over 3,000 clients during the last three years in Russia, Ukraine and other countries in the CIS and CEE. Our ability to deliver cost-effective products and solutions has been a key factor in maintaining and expanding our client base. We believe that we are a well-known provider in the CIS, particularly in Ukraine, and we have provided systems integration services to government ministries and large corporations in both Ukraine and Russia. Our large and geographically diverse client base helps to lessen the risk of our revenues being significantly negatively affected by a temporary economic downturn in any given country where we do business. For example, when Ukraine experienced political turmoil during the presidential elections in 2004 and government procurement was temporarily halted, our revenues in Russia were not impacted.

Deep industry expertise in ERP and IT consulting

As CIS information technology and consulting markets become more mature, customers request solutions which require higher levels of industry expertise and understanding of different vertical markets. We offer our customers industry-specific solutions that are based on our extensive experience and on software produced by large multinational vendors, such as Oracle, SAS and IBM. For example, our portfolio of industry-specific solutions includes credit scoring and risk management systems for banks, solutions for retail and logistics companies and production management systems for manufacturing companies. We believe that our understanding of the local market and low cost structure allows us to maintain a competitive position ahead of other systems integration companies that operate in our markets.

Good relationships with the Russian and Ukrainian governments

In emerging markets such as the CIS countries, national governments and government-controlled corporations are major consumers of IT solutions services. As a result, government support is important for our business operations. We have established good relationships with the Russian and Ukrainian governments through our excellent reputation and successful completion of projects for various Russian and Ukrainian ministries. We also have significant opportunities to establish strong relationships with the governments of other CIS countries such as Kazakhstan due to our reputation.

Strategy

We have significant experience in providing systems integration and offshore programming services from centers in Ukraine and Russia while maintaining relatively low labor costs compared to Europe and the major cities of Russia. We intend to become a leading IT services provider in CEE with a focus on higher margin value-added businesses such as systems integration. In particular, we will seek to maintain our current market share in the IT distribution business while aiming to increase our market share in the systems integration and software businesses. To achieve this, we intend to:

Rebalance our business portfolio by increasing the share of higher margin systems integration, consulting and software outsourcing business

While maintaining our current share of the distribution business market, we intend to increase our portfolio of systems integration projects by leveraging partnerships with leading international vendors and developing our own solutions tailored to local markets and specific industries. We believe that increasing our higher margin systems integration business will provide opportunities to increase our revenues and profitability.

We plan to build on our recent success in growing this part of our business. In the nine months ended September 30, 2006, our IT services business accounted for 17.8% of total revenues, which was a significant increase from the year ended December 31, 2004 when it accounted for 11.3%. In the first nine months of 2006, we have signed several systems integration contracts, including those with MTS, Severstal-Auto and Mechel.

Expand our presence in the CIS and continue to target the most promising industries for our systems integration business

We intend to increase our business in Russia and other CIS countries by taking advantage of strong regional growth. We also intend to increase our share of the CIS systems integration market by offering a wider range of products and price-competitive services as a result of our relatively lower labor costs and by using our strategic partnerships with IT industry leaders to expand our customer base and to enter new markets. Furthermore, we intend to expand our share of the Russian systems integration market by leveraging our reputation for servicing large and sophisticated clients. We entered the Russian systems integration market in 2004 and have attracted a number of large clients in different business segments, including telecommunications, banking, insurance and metallurgy. We have large corporate clients including Sistema group companies such as MTS, MGTS, Comstar UTS, Sky Link, ROSNO, MBRD and the Detsky Mir Group and non-Sistema clients such as Mechel, Severstal and Cherkizovo. We have also provided systems integration services to Russian government agencies, such as the Central Bank of the Russian Federation, the Ministry of Science and Education, the Ministry of Emergency Situations and the Ministry of Economic Development and Trade.

We intend to continue to focus on rapidly growing industries such as telecommunications, banking, retail and the public sector. We will also monitor the developments in government-controlled or relatively less efficient sectors of the CIS economy including oil and gas, utilities, chemicals, metals and mining in order to be first to capitalize on opportunities to offer IT solutions and business consulting to companies in these sectors.

Develop international software production and outsourcing services for European and U.S. companies

Our clients include industry leaders such as Lucent, DM Electronics, Huawei Technologies, Ericsson, Tridion and ZTE and we have developed educational software tailored to the needs of the Ministry of Education in both Ukraine and Russia which can be exported for use in other countries. We intend to organically expand our higher-margin outsourcing services for European and U.S. companies. Moreover, we are also considering the acquisition of software outsourcing companies with principal offices located in Europe and the United States to obtain new technology and to access an established client base.

Pursue acquisitions to accelerate the development of our systems integration and IT related services business

We intend to pursue acquisitions as part of our strategy to accelerate the growth of our business. In addition to software outsourcing companies, we are assessing the acquisition of various systems integration and IT related services companies which meet our primary objectives of furthering our geographic expansion into the CIS, obtaining access to an established client base and highly qualified personnel with industry expertise, and acquiring management and sales competencies and new technology.

Cross-sell products with our Telecommunication Solutions division

We intend to exploit the synergies between the IT Solutions and Telecommunication Solutions divisions. As a systems integrator, the IT Solutions division has natural synergies with the Telecommunication Solutions division which develops telecommunication applications for operators and large corporations. For applications where our Telecommunication Solutions division does not offer a product, we plan to offer third party solutions. We plan to be an additional sales channel for the Telecommunication Solutions division and to sell their products, including IPTV and BSS/OSS solutions. In addition, we intend to use specialists from our Telecommunication Solutions division to jointly develop products and services.

Products and Services

Our business is comprised of (1) systems integration and IT related services, including business consulting, IT infrastructure and telecommunications integration and software development and (2) distribution of computer components and software. As of September 30, 2006, we employed 700 people in systems integration and IT related services and we employed 70 people in distribution operations. Our revenues for distribution, IT infrastructure and telecommunication integration, business consulting and software development for the year ended December 31, 2005 were $374.5 million, $83.2 million, $10.7 million and $nil, respectively, which represented 80.0%, 17.8%, 2.3% and nil% of the division's revenues, and for the nine months ended September 30, 2006 were $285.9 million, $43.9 million, $17.8 million and $0.1 million, respectively, which represented 82.2%, 12.6%, 5.1% and nil% of the division's revenues.

We are certified partners of vendors who are global leaders in information technology, including Oracle, IBM, Sun Microsystems, Microsoft and Cisco Systems. We offer low labor costs and industry specific solutions in a number of sectors, including telecommunications, banking, finance and insurance, government, metal and steel, energy, retail and food processing and we plan to expand into the agricultural sector in the near future. In addition, we offer specific solutions for global companies, including public company compliance, financial consolidation and business continuity services.

In addition to systems integration solutions, we began to offer software development services in 2005. As of September 30, 2006, we employed 103 software developers based in Kiev, Ukraine, approximately double the number of software developers compared with 2004. Our software development is certified at SEI CMMI Maturity Level 4.

Systems integration and IT related services

We offer systems integration and IT related services to medium and large corporate clients and government agencies in the CIS, including business consulting, IT infrastructure, telecommunications integration and software development. We offer these services primarily in Ukraine and Russia and have established an office in Almaty, Kazakhstan. While over 75% of our revenues are generated in Ukraine and Russia, we also have clients in Azerbaijan, Belarus, Uzbekistan, Turkmenistan, Moldova, Serbia and other Central and Eastern European countries.

As of September 30, 2006, we had 344, 190, 60 and 103 employees working in our business consulting, IT infrastructure, telecommunications integration and software development departments, respectively. Of the 344 employees working in our business consulting department, 208 were dedicated to Oracle ERP solutions. We offer the following business consulting, IT infrastructure, telecommunications integration and software development services.

Business consulting services

- Business consulting services, including operational consulting, management systems, business process and structure improvement, and risk management, including Sarbanes-Oxley compliance;
- Business application implementation, including enterprise management, customer relationship management, supply chain management, and business intelligence systems;
- Data and process integration, including middleware integration, corporate portals and workflow integration systems; and
- Industry specific core solutions, including for the banking, telecommunications, retail, insurance and utilities sectors.

IT infrastructure services

- IT consulting, including IT audit, corporate IT infrastructure design, IT security and business continuity;
- Corporate computing, including corporate data centers, fault tolerant clusters, reserve computing centers, IT management systems and storage area networks;
- Corporate telephony, including call centers, contact centers and digital voice recording;

- Physical infrastructure, including local area networks, calling and engineering systems and UPS systems; and
- Service and outsourcing, including enterprise IT systems maintenance, service level agreements and IT outstaffing.

Telecommunications integration services

- Multi-service networks, including IP/MPLS networks, corporate networks and voice, data and multimedia convergence solutions;
- Operating support services, including fault management, FMS and RA, service activators, performance management and inventory; and
- Value-added services, including USSD, RBT, SDP, DMS, DSTK and cell broadcast.

Software development and outsourcing

- Software-related products and services, including offshore development centers, multimedia solutions, interactive media-rich content and e-learning and edutainment.

Distribution of computer components and software

We sell computer components and software produced by global vendors to a large network of wholesalers and also to retailers. We have sale offices in Ukraine and Russia as well as Budapest, Hungary, Prague, the Czech Republic, Vilnius, Lithuania, Nicosia, Cyprus, Dubai, United Arab Emirates and Amsterdam, The Netherlands. Our principal product categories are CPUs, hard disk drives, motherboards, peripherals, servers and software. These product categories represented over 80% of our total revenues for the year ended December 31, 2005 and the nine months ended September 30, 2006, with the largest category being CPUs and the second largest category being hard disk drives. In addition, we offer after-sales maintenance services to our customers.

Our key computer component vendors include companies such as Intel, Seagate and Western Digital. Our sales of Intel products were $228.0 million and $153.1 million, or 48.7% and 44.0% of our total revenues, for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. We are aware of the risks of a single vendor representing a large percentage of our revenues and are working to decrease this dependency. Our sales of Intel products as a percentage of total revenues has decreased significantly since 2004, when sales of Intel products represented approximately 67.1% of our total revenues. Our key software vendors include companies such as Microsoft. In certain limited circumstances, we purchase products for our distribution business from Russian or Ukrainian importers rather than importing these goods directly.

The geographic distribution of our distribution sales are concentrated in Ukraine and Russia and these countries together accounted for approximately 54% and 62% of our revenues for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively. In the last two years, the volume of sales to Russia has increased from $59.0 million for the year ended December 31, 2004 to $127.7 million for the year ended December 31, 2005.

Customers

Systems integration and IT related services

The majority of our systems integration and IT related services customers are large corporate clients and governmental entities. Currently, our major corporate customers are Sistema affiliated companies such as MTS, UMC, UzdunRobita and Comstar. For the year ended December 31, 2005 and the nine months ended September 30, 2006, our revenues from Sistema group companies were $68.7 million and $41.0 million, respectively. Our largest customer is MTS, a Sistema subsidiary and Russian mobile telephone operator, which represented approximately 8.2% of our revenues for the nine months ended September 30, 2006. The table below shows our major customers for the year ended December 31, 2005 and the nine months ended September 30, 2006 measured by sales.

Customer Name	Country	Year ended December 31, 2005	Percentage	Nine months ended September 30, 2006	Percentage
		(in millions of U.S. dollars)		(in millions of U.S. dollars)	
MTS[(1)]	Russia	44.9	9.6%	28.1	8.2%
UMC[(1)]	Ukraine	12.8	2.7%	9.0	2.6%
UzdunRobita[(1)]	Uzbekistan	4.2	0.9%	—	—%
Belsoft	Belarus	3.0	0.7%	—	—%
Ministry of Education	Ukraine	2.5	0.5%	—	—%
Ukrtelecom	Ukraine	1.8	0.4%	0.2	0.1%
Comstar[(1)]	Russia	1.6	0.3%	2.3	0.7%
Ukrsocbank	Ukraine	1.0	0.2%	2.5	0.7%
Zaporozhstal	Ukraine	0.8	0.2%	0.5	0.1%
Personal Communications[(1)]	Russia	0.9	0.2%	0.1	—%

(1) Sistema group companies.

We also serve a large number of non-Sistema corporate clients. For example, in the financial sector, our customers include Ukrsotsbank, Indexbank, Garant AVTO Insurance and ValutTransitBank. In the telecommunications industry, we have completed projects for Ukrtelecom and Astelit. In addition, we have been hired by large industrial companies such as Zaporozhstal, Azovstal, Mechel, Severstal and Mittal Steel, among others.

Governmental entities represent another major group of our systems integration and IT related services customers. Our positions in this sector is particularly strong in Ukraine where we have long-standing relationships with various governmental entities and have completed projects for the National Bank of Ukraine, the Ministry of Education and Science, State Committee for Statistics and the State Customs Committee. In Russia, we have implemented projects for the Central Bank of the Russian Federation and the Ministry of Education and Science.

Distribution of computer components and software

The revenues of our distribution business for the year ended December 31, 2005 and for the nine months ended September 30, 2006, were $374.5 million and $285.9 million, respectively. Our revenues are derived principally from wholesalers and dealers.

Intellectual Property

Our key intellectual property consists of software products developed by our engineers and programmers. As of September 30, 2006, we held 31 copyrighted software products in Ukraine and two copyrighted software products in Russia. In addition, our brand name is also one of our key assets and has been trademarked. As of September 30, 2006, we had 28 trademarks registered in Ukraine and five trademarks registered in Russia. We also hold 10 patents, nine of which were acquired from third parties.

Sales, Marketing and Customer Support Services

Systems integration and IT related services

Sales

We utilize the same sales strategy in all the markets in which we operate. For each market segment, we assign employees who are responsible for developing clients in that segment in conjunction with a business development manager and a sales team. Typically, our account managers manage the sale process, which includes identifying a potential customer, approaching the client, bidding for a project and negotiating the project's scope. Once the project is approved by the client, a project manager is responsible for accomplishing project tasks. In addition, we assign managers to some of our key customers who are responsible for responding to the customers' needs.

We also have business development managers who are responsible for maintaining good business and personal relationships with our major clients and partners. In addition, our segment department heads are responsible for developing relationships with customers in a particular segment.

Marketing

We believe that Kvazar-Micro is a well-established name in Ukraine and that we are widely recognized as a leader in the Ukrainian IT market. In other CIS countries, we have not yet achieved the same level of name recognition. Therefore, we are focusing our marketing efforts on increasing the awareness of our name and capabilities in Russia and other CIS markets. We believe that in order to achieve this goal, we need to establish ourselves as a competent and reliable systems integrator by successfully and timely executing projects for our large corporate clients. A portfolio of successfully implemented projects allows us to acquire new clients through these references. In addition, our affiliation with the Sistema group and the implementation of a number of projects for Sistema companies increases our name recognition in Russia and presents business development opportunities.

We often receive free media coverage in Russia and Ukraine by conducting various public relations activities such as participation by our managers in press interviews and participation in trade shows. In addition, we carry out "direct marketing" activities and contact predetermined potential customers through seminars, demonstrations of our solutions and one-on-one presentations for key decisionmakers such as the CEO, CIO and CTO of the corporate or public sector enterprise.

Distribution of computer components and software

Sales

Nearly all of our distribution business customers are wholesalers and dealers.

In order to be closer to our customers and to make our operations more efficient, we have established distribution centers in Hungary, the Czech Republic, Cyprus, Lithuania, United Arab Emirates and The Netherlands, in addition to our Kiev and Moscow offices.

We typically keep most of the products we offer in stock which allows us to promptly fulfill customer orders. As of September 30, 2006, we had approximately $32.1 million worth of inventory in stock. In addition, our distribution business is subject to seasonal fluctuations and, therefore, our inventory also fluctuates considerably during the course of the year.

Marketing

Due to the nature of the distribution business and since most of our customers are wholesalers and dealers, we do not conduct any significant marketing activities supporting this business segment. Marketing support for the products we distribute is typically provided by the manufacturers of the products or by the dealers and wholesalers themselves. We also occasionally participate in joint promotional activities with our vendors.

Customer Support Services

We believe that delivery of timely, high-quality customer services increases the possibility of obtaining repeat business and enhances our reputation. As a result, we maintain an extensive technical service network for our IT infrastructure customers with over 50 third party service centers throughout Ukraine and Russia. Our service centers are primarily managed by local companies who have been certified by us.

In addition, we provide a customer support hotline, offer on-site service and provide temporary replacement equipment to minimize the downtime for our clients. We also make efforts to considerably reduce our response time and are organizing our internal processes whereby customers will deal with one customer service representative. This representative will determine how to properly address their complaints and contact appropriate service centers, engineers and vendors.

Market and Competition

Systems Integration and IT related services

We offer systems integration and IT related services primarily in Russia, Ukraine and also in certain other CIS markets. The Russian systems integration market is more developed and, as a result, is more competitive than the Ukrainian market. However, the competition in both countries is largely local in nature with global players having only a limited direct presence. Both in Russia and Ukraine, governmental entities are major and often lucrative consumers of systems integration and IT related services. In Ukraine, our business reputation and successful track record of project execution for large corporate and governmental clients often makes us the preferred choice to partner with the Ukrainian government in implementing large-scale systems integration projects.

Generally, we face limited competition in Ukraine, primarily from companies such as Inkom, BMS Consulting and S&T Softronic, a subsidiary of the Austrian systems integrator S&T. Inkom only offers products developed by SAP and does not sell Oracle programs. Therefore, as a provider of Oracle solutions, we do not compete with Inkom with respect to products offered, but we continue to compete for customers who do not have any predetermined preferences as to particular a vendor. Global vendors do not have significant systems integration operations in Ukraine at this time.

We entered the Russian market in 2004 and are still in the process of establishing ourselves as a major provider of systems integration and IT related services. Currently, our major clients in Russia are Sistema affiliated companies. However, we actively pursue non-Sistema corporate clients and intend to continue to do so in the future in order to create a more diverse and sustainable client base. We are currently limited in our ability to compete for Russian government contracts because some governmental entities require a five-year presence in Russia as a pre-condition for participation in their tenders. Our major competitors in Russia include well-established local systems integrators such as Croc, Technoserve, IBS, Lanit and Borlas. Together these companies represent formidable competition in every segment of the market. As in Ukraine, global vendors currently do not have significant systems integration operations in Russia.

Overall, certain segments of the Russian systems integration market are reaching high saturation levels. For example, most of the large clients have already acquired ERP systems and will not require any major upgrades in the near future. Therefore, the demand for ERP systems mostly comes from middle-size and small companies which results in downward price pressure and lower margins for systems integrators. Consequently, we intend to expand our product portfolio in order to offer large clients more customized and task-specific solutions which they have not yet acquired.

We do not believe that any new local systems integrator will emerge as a competitive threat to us. Due to the intense competition, entering the Russian systems integration market requires significant financial resources. In addition, assembling a team of skilled and experienced consultants is difficult due to the significant demand from existing competitors and a general shortage of qualified personnel in these markets. Furthermore, the lack of an established client base represents a significant obstacle for any new market entrant. For example, our successful entry into the Russian market was, in large part, aided by our affiliation with Sistema.

We believe that potential direct entry of a global vendor into the markets in which we operate may present a serious competitive threat to us and to other local systems integrators. Currently, we are not aware of any immediate plans by any global vendor to enter either the Russian or Ukrainian markets.

Distribution of computer components and software

Our distribution business faces strong competition in every market in which we operate. We have long-standing relationships with vendors and our major customers. However, most of our competitors work with the same vendors and offer similar products to wholesalers and dealers. As a result, price and product availability are often the key considerations for a customer. Due to severe price competition, the distribution business is characterized by low margins and in order to maintain high profit levels participants must achieve high volumes of sales.

Our competition is predominantly local in nature. In Ukraine, our main competitors are ELCO Technologies, Millennium Distribution and Asbis. In Russia, in addition to these companies, we also compete with Merlion. In the CEE markets, we primarily compete with ELCO Technologies and Asbis.

Microelectronic Solutions

Overview

Founded in 1964, Mikron, our Microelectronic Solutions subsidiary, is the leading Russian semiconductor producer and offers customers virtually every stage of the semiconductor production cycle, including development, design, manufacturing, integrated circuit ("IC") packaging, testing and distribution. Our semiconductor wafer fabrication facilities are able to produce over 400 functionally different types of analog and digital ICs. We are a major supplier of customized ICs to the Russian defense industry and Russia's leading exporter of power management ICs as measured by revenues. We offer the following products and services:

- IC research and development services for CIS military contractors, state-owned enterprises and automotive industries;
- customized ICs in environmentally-hardened metal-ceramic packaging for the Russian defense industry;
- power management ICs in wafer form principally for Southeast Asian suppliers of Asian OEMs;
- chip modules based on third party ICs primarily for use in smart cards for the CIS market; and
- smart cards and related services to CIS mobile telecommunication operators, banks and the public sector.

Our core research and development and production facilities were built in the 1970s and are located in Zelenograd, the "Silicon Valley" of the former USSR, and we also have production facilities in Voronezh, Russia. In the mid-1990s, we acquired our facilities through privatizations and upgraded our facilities with modern cleanrooms in the late 1990s.

As of September 30, 2006, we had a total of 2,650 employees of which 34% had university degrees. Approximately 70% of our employees are involved in production and 10% of our employees are involved in research and development. We employed 230 engineers in our research and development departments, including 21 Ph.D.s and 11 Doctors of Science. Of these engineers, 142 are involved in the design of ICs and 88 are involved in the development of new production processes.

We have a customer base of approximately 500 clients in the CIS including military contractors and companies in the automotive industry and approximately 100 clients in Asia, including Southeast Asian suppliers of Asian OEMs. Our revenues for the year ended December 31, 2005 and the nine months ended September 30, 2006 were $56.9 million and $78.0 million, respectively. For the year ended December 31, 2005 and the nine months ended September 30, 2006, sales to military contractors represented 18.5% and 15.8% and sales to the Sistema group represented nil% and 28.3% of our revenues, respectively. For the year ended December 31, 2005 and the nine months ended September 30, 2006, our exports were 53.2% and 37.6% of our revenues, respectively. For the year ended December 31, 2005 and the nine months ended September 30, 2006, exports to Ukraine accounted for nil% and 13.3%, and collectively to Taiwan, Hong Kong, China, South Korea and Singapore accounted for 36.6% and 21.6% of our revenues, respectively. We started producing smart cards in March 2006. For the nine months ended September 30, 2006, our revenues from smart cards were $26.5 million or 34.0% of our total revenues.

Competitive Strengths

High-quality labor force and relatively low cost of production

Zelenograd is home to one of Russia's prominent technical universities and several research institutes. Our location in Zelenograd gives us the ability to recruit highly-trained, qualified and relatively low-cost design and production engineering staff.

Our costs of production are relatively low due to a subsidy from the City of Moscow, Russian Federation, for our electricity tariff, our in-house maintenance capability for our 2.0-0.8 micron wafer production facilities and our use of domestic raw materials.

High-quality products

We have a 40 year history of producing ICs to meet strict military specifications and, as a result, we believe we are capable of producing high-quality ICs for the commercial market. Furthermore, a large number of customer orders results in stable manufacturing conditions which allows us to efficiently utilize our wafer production facilities. As a result, we are able to maintain a high average production yield. In 2005, we had a production yield of approximately 90% for our power-management ICs.

Strong relationships with the Russian government and military

Through our work with the Russian defense industry, we have established a strong reputation for our IC products within Russia. Based on our position as the leading Russian IC manufacturer and our strong reputation, we believe that we are well-positioned to benefit from increased Russian government expenditures on programs which are often limited to participation by Russian companies. Furthermore, there are high market entry barriers to become a Russian semiconductor producer. We estimate the cost of establishing a greenfield wafer fabrication facility in Russia which is equipped with modern technology to exceed $1 billion and to require several years to construct.

The Russian Federation, through the Federal Agency for Management of Federal Property, made an equity investment of approximately $10 million in Mikron. This investment reflects the Russian government's support of our IC business. We participate in major civilian public sector projects, including the design and production of ICs for a pilot project of the Russian Federation's new biometric passports in 2006 and the production of RFID metro fare cards for the Moscow metro system.

Strategic alliances with global leaders who are beginning to expand into the CIS market

Due to our reputation as Russia's leading semiconductor producer, we have established strategic alliances with global leaders who are beginning to expand into the growing CIS IC market. For example, in 2006 we established an alliance with STMicroelectronics where in exchange for a transfer of 0.18 micron EEPROM technology, we will produce ICs based on STMicroelectronics design kits and libraries and market STMicroelectronics products for use in secure banking cards and in telecommunication products. In June 2005, we formed a joint venture with G&D, a leading international smart card manufacturer and operating system and platform developer, to produce and personalize smart cards. We established an alliance with Infineon Technologies AG in September 2005 and, as a result, we are currently the only manufacturer of chip card modules in Russia and have a standing arrangement to provide chip card modules for Infineon upon their request.

Strategy

We intend to increase our share of the Russian semiconductor market with the introduction of new products and services based on 0.18 micron technology. In international markets, we intend to maintain our market share in power management ICs and to increase our revenues by selling packaged ICs directly to Asian OEMs and by providing IC testing services to Southeast Asian manufacturers. We intend to be one of the leading developer and manufacturer of semiconductor ICs in the CIS and CEE markets. To achieve these goals, we plan to:

Transition to 0.18 micron technology over the near term and to 0.13 micron over the medium term

We intend to complete our production facility upgrade from 2.0-0.8 micron technology to 0.18 micron EEPROM technology. The total cost of upgrading our facilities is expected to be up to $160 million by the end of 2007. This upgrade will allow us to produce microcontrollers for smart cards, ICs for customized applications, analog-digital and digital-analog converters, memory and other digital ICs based on 0.18 micron technology and to offer foundry services to third parties.

This investment will provide a foundation for further facility upgrades. A transition from 0.18 micron to the more advanced 0.13 micron technology is not expected to require significant additional capital expenditures. Moreover, we will be able to double our capacity from 1,500 to 3,000 wafers per months with an additional investment of approximately $30 million to $35 million.

Increase our presence in the growing CIS smart card market

In June 2005, we formed a joint venture with G&D to produce smart cards and applications for the smart cards. We package semiconductor chips into modules using equipment and technology supplied by Infineon Technologies and these modules are embedded into the smart cards and permit the secure processing of data. These smart cards can be used in a variety of applications such as SIM cards, Europay Mastercard Visa ("EMV") banking cards and identification cards (including RFID fare cards). We currently supply SIM cards produced by this joint venture to MTS and UMC. We also intend to aggressively market these smart cards to the Russian government, military contractors, public transportation companies, financial institutions, telecommunication operators, retailers and private industry. We believe that smart cards yield relatively higher margins and provide us with substantial opportunities to increase our revenues and profitability.

We intend to improve our research and development capability to more efficiently produce existing products, design new products and to offer design services to third parties

In May 2005, we centralized our process engineers and IC developers and designers in a new research and development facility located in Zelenograd. This new facility is equipped with modern hardware and software for IC development and testing. As of September 30, 2006, we had approximately 80 IC developers and designers who are scheduled to be trained at STMicroelectronics in Rousset, France in 2007. These IC developers and designers will be developing our new product lines based on 0.18 micron technology, including smart card chip design and application-specific ICs for third parties.

We plan to begin selling packaged ICs to Asian OEMs and to provide IC testing services in Southeast Asia

Historically, our sales to Southeast Asia were primarily comprised of sales of wafers to companies that would dice the wafer into ICs and then package the ICs for sale to Asian OEMs. By the end of 2007, we intend to acquire a company in Southeast Asia with IC assembly, testing and distribution capabilities with an established client base in order to sell packaged ICs under our own registered brand name "MIK" directly to Asian OEMs. By adding value to our wafers through further assembly and testing, we hope to be able to command higher margins and thus increase our revenues and profitability. In addition, we intend to offer testing services and verification of compliance with industry specifications of third party ICs to Southeast Asian manufacturers.

Products and Services

Our main products and services include research and development, the production of power-management ICs, customized IC in packaging, chip module manufacturing and smart card products.

Research and development / IC design

We offer customers both research and development and IC design. In May 2005, we centralized our process engineers and IC developers and designers in a new research and development facility located in Zelenograd which is equipped with modern hardware and computer aided design software tools for IC development and testing equipment from Agilent. As of September 30, 2006, we employed 230 process engineers and IC developers and designers. We conduct research and development primarily for military contractors and state-owned enterprises which outsource research and development. In addition, based on our proprietary production technologies, we offer the rapid development and design of new application-specific ICs for third parties in the CIS, including military contractors, state-owned enterprises and automotive industries.

Production of standard bipolar power management ICs in wafer form

Since the introduction of integrated circuits in the late 1960s, we have produced analog power management ICs in wafer form. Power management ICs are used in most devices that require an electrical power supply. We offer proprietary bipolar technology for DC-to-DC power conversion and voltage regulation to minimize power consumption. Our power management ICs are used primarily by Asian OEMs.

Production of customized ICs in environmentally-hardened metal-ceramic packaging

We offer customized ICs, including logic, memory, interface ICs, diodes and microprocessors and their assembly in environmentally-hardened metal-ceramic packages primarily for the CIS market. For over 40 years, we have applied unique design and process capabilities to produce ICs capable of enduring the extreme temperature and radiation of space and other harsh environments for use in space, military and automotive applications.

Chip module manufacturing services

We offer the manufacture of chip modules from third party ICs. We established an alliance with Infineon Technologies AG in September 2005 and are now the only manufacturer of chip card modules for smart cards in Russia and are a backup manufacturer of chip card modules for Infineon. We have two manufacturing lines with a total annual capacity of 60 million chip modules for smart cards with die-attach, wire-bonding, encapsulation, embedding and testing machines. We can supply chip modules using different dies and tapes as requested by customers. Our primary customer is our joint venture with G&D which is producing smart cards for the CIS market.

Smart card products and related services

Since March 2006, we have produced smart cards and offered related services, including personalization, to CIS mobile telecommunication operators, banks and customers in the public sector. Our smart cards are typically used in applications such as SIM cards for GSM and CDMA networks and we expect to produce RFID metro fare cards and EMV banking cards in 2007. In addition, we are able to physically install an over-the-air platform (OTA), which we developed in conjunction with G&D, across the network of a mobile telecommunication operator. This platform allows the subscriber to manage mobile content such as stock quotes and weather forecasts through their mobile phones or through the Internet.

Research and Development

We employ 230 engineers in our Zelenograd and Voronezh research and development facility, including 21 Ph.D.s and 11 Doctors of Science who design application-specific ICs for third parties and develop new products and production processes.

Intellectual Property

We use propriety technology and processes in many facets of our business. We hold key patents which are registered in Russia related to certain production processes involving the basic structures which comprise an IC. Our Mikron, NIITM, KCK and VZPP trademarks are registered in Russia and our MIK trademark, solely for use in IC branding, is registered in China.

Sales, Marketing and Customer Support Services

Sales

As of September 30, 2006, we employed 40 people in our sales departments which are organized by product line, including research and development, production of power management ICs, customized ICs in environmentally-hardened metal-ceramic packaging, chip module manufacturing and smart card products and services. In addition, our joint venture with G&D has a sales force of ten employees and sells SIM cards directly to MTS and UMC.

We primarily sell products directly to our larger customers in the domestic market such as military contractors and to the majority of our customers in Southeast Asia. In addition, we have hired third party sales agents in Asia to gather market information and to identify potential customers.

Marketing

We focus our promotional efforts on two areas: (1) marketing and business development, including expanding our client base, introducing new products and (2) forming new strategic partnerships. Due to our leading position in Russian microelectronics, we regularly host Russian and other government officials who tour our facilities in their official capacity and, as a result, we receive press coverage from leading Russian media outlets. We participate in semiconductor exhibitions in Russia, other CIS countries, Germany, Taiwan and Hong Kong. In addition, we host an annual conference for our domestic customers where we announce our latest products, share our technological roadmaps and receive feedback from customers on improving our existing services and potential product lines. We have also co-sponsored an exhibition of contemporary art to increase brand awareness.

Customer Support Services

For IC application development, we provide field application engineers to assist our clients in integrating our ICs into their products. For our smart card products, we provide technical support to mobile telecommunication operators.

Manufacturing, Assembly and Testing

Production

We have two wafer fabs in Zelenograd and in Voronezh (approximately 500 kilometers south of Moscow) with a combined average annual capacity of 600,000 4" wafers and 120,000 6" wafers. As we transition to 0.18 micron technology, we expect that a larger share of our production volume will be comprised of 6" wafers. The Zelenograd facility comprises approximately 100,000 square meters, including 6,980 square meters of cleanroom space. The Voronezh facility comprises approximately 53,000 square meters, including 6,956 square meters of cleanroom space. We own the plant and equipment at each of these facilities and have 49-year leases from the local government for the land on which our Zelenograd and Voronezh fabs are located and these leases expire in 2043 and 2053, respectively.

Our smart card production facility occupies 3,000 square meters of our Zelenograd facility. This facility utilizes equipment made by well-known manufacturers, including Datacard, Rulahmat, Atlantic Zeiser and Mulbauer. Through our joint venture with G&D, we have access to latest smart card technology and to G&D's know-how in smart card production. As of November 2006, our production volume of SIM cards was approximately 2.5 million smart cards per month and we expect the production volume of this facility to eventually increase to approximately 4 million smart cards per month within the next three years. We also manufacture our chip modules and RFID metro fare cards at our Zelenograd facility. The aggregate annual production capacity of these facilities is 60 million chip modules and 280 million RFID cards. We expect to manufacture 60 million chip modules and 100 million RFID metro fare cards in 2007.

In 2004 and 2005 we obtained three loans from the City of Moscow on favorable terms in the total amount of 402.4 million rubles (approximately $15.3 million) due in 2009 and 2010 for the purpose of financing our debt and funding our capital expenditures for technical upgrading, modernization and reconstruction of our production facilities. As a part of these loan agreements, we committed to achieve certain milestones, including (1) to upgrade certain production facilities and fully utilize them during the second quarter of 2007, (2) to increase our tax payments over the next seven years up to an amount not less than 217 million rubles (approximately $8.2 million), (3) to increase production output by at least 25% by 2011, (4) to expand our workforce by 10% as compared to that in 2004 and (5) to generate 2.4 billion rubles (approximately $91.2 million) in revenues by 2013. We have already repaid two loans and as of September 30, 2006, we had 217 million rubles (approximately $8.2 million) outstanding on the remaining loan.

Quality Control

As of September 30, 2006, our quality control department employed 25 people and included three laboratories for technical inspection, failure analysis and equipment calibration. Mikron has complied with ISO 9000 standards since 1995. Mikron also has ISO 9001:2000 certification and is awaiting a confirmation of its compliance with ISO 14001. In addition, based on the customer feedback, we continually improve our products in order to ensure customer satisfaction.

Major Suppliers

For our smart card business, our largest supplier is G&D from whom we purchased $4.0 million in IC modules from the start of our joint venture in June 2006 to September 30, 2006 and we will continue to use third party ICs for the modules we produce until the end of 2007. However, as we transition to 0.18 micron technology, we expect to stop purchasing third party ICs and intend to begin using our own ICs in our modules from 2008.

We have two major categories of suppliers for our semiconductor business: raw material suppliers, including wafers, and IC package suppliers. The majority of our supply costs are for the purchase of bare silicon wafers from which we produce semiconductors. Our procurement costs for our largest supplier of wafers for the year ended December 31, 2005 and the nine months ended September 30, 2006 were approximately $1.0 million and $2.0 million, respectively, which accounted for approximately 4.9% and 6.8%, respectively, of our total purchases. A single Russian company supplies two-thirds of our bare silicon wafer supplies. For IC packages, for the year ended December 31, 2005 and the nine months ended September 30, 2006 our procurement costs from our two largest suppliers were approximately $2.1 million and $2.3 million, respectively, which accounted for approximately 10.3% and 7.8%, respectively, of our total purchases.

A majority of our suppliers are based in Russia and all our suppliers are required to be ISO certified. We have close relationships with our key suppliers and maintain an approved vendors list which requires the vendor to be qualified according to certain standard, including ISO criteria.

Market and Competition

Customized ICs for the Russian market

Electronics Publishing House, a Russian industry publication, estimates the size of the Russian semiconductor components market for military and aerospace applications to be approximately $116 million in 2005. We believe our customized ICs account for a significant share of this market. We believe our main competitors for customized ICs are Integral (Belarus) and Angstrem (Russia). Both of these companies are eligible to compete for Russian government contracts.

According to our internal estimate, foreign producers held approximately half of the Russian market of semiconductor components for military and aerospace applications due to the lack of technology in Russia which would allow for the production of certain types of customized high performance digital ICs like microprocessors and memory. As we transition to 0.18 micron technology, we intend to offer a greater range of products previously unavailable from Russian producers. As a result, we expect that the share of foreign-produced customized ICs of this market will decrease due to the preference of Russian government for key military and aerospace components to be supplied domestically.

Smart cards

AC&M Consulting, a Russian market research company, estimates the size of the Russian SIM card market to be $200 million for 2004. This is a very competitive market with a large number of suppliers and a limited number of consumers that are primarily concentrated in the telecommunications sector. We consider our primary competitors to be Orga (Russia), Gemalto (France) and Oberthure (France).

Power management ICs

According to iSuppli, a U.S. market research company, the global power management IC market is estimated to be $25 billion in 2006 with bipolar power management ICs accounting for 6% of this market. This is a highly competitive market which is very sensitive to price. We consider our competitors to be other bipolar power management IC producers such as BCD (China) and Anachip (Taiwan).

Consumer Electronics

Overview

We are a national consumer electronics brand and we offer products and services through a distribution network of 170 dealers across Russia and Ukraine and 263 third party after-sales warranty and maintenance service outlets. Our products are manufactured by OEMs in Taiwan, Russia and China. We sell our products to consumer electronics dealers, including national retailers such as Eldorado, M.Video and Technosila, wholesalers, and regional and local retailers. In addition, we sell to discount warehouse retailers and, increasingly, to internet-based stores. We manage our operations from Moscow, Russia and have a sales office in Kiev, Ukraine. As of September 30, 2006, we had a total of 176 employees, 151 of which were based in Moscow and 25 of which were based in Kiev.

We launched our "Sitronics" consumer electronics brand in December 2002 with the objective of creating a national brand. According to TNS Gallup Media, as of August 2006, we had achieved approximately 22% brand awareness among men and women in Russia between the ages of 25 to 45. Our target market is middle-income consumers in Russia between the ages of 25 to 45. In particular, in

Russia we market our products to educated male consumers by appealing to their sense of patriotism. We believe that our brand is the only consumer electronics brand which has achieved a significant level of recognition by Russians as being Russian in origin. In Ukraine, we position "Sitronics" as an international brand.

Our revenues for the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006 were $3.4 million, $30.8 million, $124.0 million and $88.2 million, respectively. In addition to Sitronics-branded consumer electronics, we also sell household appliances and car stereos under our brand name and resell non-Sitronics brand products to dealers. A significant portion of our revenues for the year ended December 31, 2005 and the nine months ended September 30, 2006 were generated by our resale activities. For the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2006, resale activities represented 1.9%, 54.0%, 68.6% and 63.0% of our total revenues, respectively. At the end of 2006, we discontinued our resale operations in order to concentrate our activities on promoting our branded products. In addition, we will stop marketing Sitronics-branded household applicances in 2007. For the first nine months of 2006, we believe approximately four-fifths of our products were destined for Russia and one-fifth to Ukraine.

We currently offer "Sitronics" branded mobile telephones, DVD players and home theaters, LCD television sets, portable electronics and other products such as high-end audio and car stereos.

Competitive Strengths

Our key competitive strengths include:

Widely recognized company image and brand

Due to our marketing and product sales, "Sitronics" is a widely recognized brand in Russia. According to the TNS Gallup Media Market Index, as of April 2006, our brand awareness in the Russian market was 22%.

Broad and extensive distribution channels

We have a wide distribution and service network with approximately 170 dealers throughout Russia and Ukraine and 263 after-sales warranty and maintenance service outlets. We offer our products throughout Russia and Ukraine through national retailers, wholesalers, regional retailers, local retailers, discount warehouse retailers and increasingly through Internet-based stores. Our employees have extensive and long-standing relationships with dealers throughout our distribution network. We believe these relationships have increased the reliability and loyalty of our dealers and have improved our business operations.

Operational excellence

We believe we are able to obtain favorable terms and conditions for OEM services relative to our competitors due to our reputation in the Russian market and our affiliation with Sistema. In addition, our employees have significant experience in sourcing components from Asia and in implementing quality control at every stage of the supply chain.

Extensive and long-term partnerships with key suppliers and dealers

We are able to source key components for our products from leading manufacturers in Asia. For example, we are able to source LCD panels directly from AU Optronics and Chi Mei Optoelectronics. We believe that this distinguishes us from our main competitors for these products in the Russian market who typically do not source these components from leading Asian manufacturers.

Sistema is one of our major customers and partners. Our affiliation with Sistema has provided business development opportunities as a result of the large number of businesses and governmental entities that conduct business with Sistema. In the year ended December 31, 2005 and the nine months ended September 30, 2006, our sales to the Sistema group accounted for approximately 10.7% and 3.2% of our revenues, respectively. In addition, we sell products to Sistema group employees.

Strong team of professionals

We believe that we have an exceptionally competent team of professionals managing all aspects of our business. We made it a priority to identify and attract experienced people in the industry. Our employees have an average of seven years of experience in the consumer electronics industry and possess unique knowledge and expertise. As a result, we believe that we are in a position to successfully execute our strategy and run our day-to-day operations more efficiently and effectively than our competitors.

Strategy

Our goal is to further build our consumer electronics brand within Russia and Ukraine. We intend to offer reasonably priced products based on designs and feature sets that are clearly distinguishable from other products on the market. We intend to develop some products jointly with other divisions and Sistema companies. To achieve our goal, we intend to do the following:

Transition from an OEM to ODM business model

We have historically produced products using OEMs. However, as consumer electronics products become increasingly commoditized, the design of our products becomes a key factor in distinguishing our products and in allowing us to achieve higher profit margins. To accomplish this, in 2007 we intend to establish a design bureau in Moscow, Russia to continually update our product designs. In addition, in 2007 we plan to take advantage of the large number of suppliers and manufacturers in China by establishing an industrial research and development facility in China that will allow us to work closely with our ODMs to provide quality control.

We also intend to utilize technologies developed at our other divisions as part of the design of our products, including, among other examples, software from our Telecommunication Solutions division for IPTV set-top boxes and semiconductors and smart cards from our Microelectronic Solutions division for various electronic devices.

Refocus our product line

We have recently refocused and intend to continue refocusing our product line in order to change our brand perception among dealers and consumers to a brand of high technology products and thereby increase the profit margins on our products. At the end of 2006, we ceased production of household appliances and CRT television sets and terminated our resale operations. As a result of this strategy, we expect our revenues to significantly decline in 2007 but this will maximize our long-term growth and profitability.

In accordance with our strategy, we intend to limit our product offerings to two categories: (1) audio-video products, including LCD and plasma television sets, DVD players, home theaters and high-end audio components and (2) portable electronic devices, including flash drive music players, portable DVD players and portable television sets.

In addition to introducing new product lines, we intend to improve existing product lines by adding more advanced features. We intend to introduce set-top boxes to receive digital video broadcasting terrestrial (DVB-T) transmissions in 2007, ahead of the change in Russian government broadcasting standards which are expected to require digital decoders to receive television broadcasts. In addition, we intend to introduce in 2007 portable GPS navigation devices and portable media-players. We also intend to jointly develop products with Sistema companies, including mobile phones with exclusive software to deliver advertisements to MTS subscribers and television sets to receive IPTV provided by Stream, a Sistema group company. We believe that the introduction of new product lines and the improvements in our existing product lines will allow us to achieve higher profit margins.

Expand our distribution network

We have a strong distribution network of national retail chains and large wholesale companies through which we access regional retail markets. In addition, our regional distribution policy is to sell our products through at least one large regional retailer and one large regional wholesaler for each of the seven regions of Russia. We intend to further develop our distribution channels by offering transparent and uniform pricing and exclusive pricing arrangements based on volume, credit risk, financing terms and other factors. In addition, we plan to expand existing retail channels and develop distribution channels such as distance sales through the Internet, television and telephone, discount warehouse retailers, Sistema companies and corporate and government clients.

Improve our marketing and branding

We intend to improve our marketing and branding in order to establish Sitronics as a widely recognized brand with broad consumer appeal. Improved brand recognition will lead to increased sales and will support price premiums which will arise from our ODM business model. Our target level of brand awareness is approximately 60% among our target audience within the next five years. Based on our previous experience, we believe that we can achieve this level of brand awareness through both advertising and the name recognition that results from each of our sales.

Products

The following table shows the main products that we produce and our revenues for the periods indicated.

Product Category	Year ended December 31, 2005	Nine months ended September 30, 2006
	(in millions of U.S. dollars)	
Resale of non-Sitronics brands	85.1	55.5
CRT television sets	22.8	14.9
Mobile telephones	—	7.9
DVD players and home theaters	2.3	2.6
LCD television sets	11.8	4.9
Portable electronics (other than mobile telephones)	—	1.3
Other (high-end audio, household appliances, car stereos)	2.0	1.0
Total	124.0	88.2

For the nine months ended September 30, 2006, approximately 70% of our "Sitronics" products were assembled by OEMs in Russia with the remainder assembled by OEMs in China and Taiwan. In cases where we could obtain lower prices than our OEMs, we sourced key components from India, Korea, China and Taiwan.

For each of our product categories, a designated product manager determines the specifications for future products based on marketing research and our operations department selects an OEM that satisfies our technical specifications and meets certain other criteria related to reliability, design and quality. After an OEM and the specific model are chosen, we adapt the product to the Russian market with specific features, including Russian language manuals, tailored packaging and components which can accommodate Russian electrical power fluctuations.

Through the end of 2006, we resold to our dealers non-Sitronics branded consumer electronics and household appliances, including well-known brands such as Samsung, LG, Philips, Panasonic, Braun and Tefal. This allows us to offer our dealers a greater range of products which assisted us with the sale of "Sitronics" branded products. While resale operations generated a relatively high volume of revenues with minimal overhead costs, we discontinued our resale operations at the end of 2006 because it was not consistent with our strategy.

Sales, Marketing and Advertising

Sales

As of September 30, 2006, we had 18 employees in our Russian sales department and five employees in our Ukrainian sales department. Our sales force is organized by geographic region and by the type of client, including corporate clients and national retail chains. Our sales force works with current customers to support both existing sales and to find and attract new customers. We intend to shift our focus away from wholesalers and small retail companies to concentrate on national retail chains, corporate clients, Internet sales, discount warehouse retailers and government orders and, as a result, our total number of clients will decrease. In addition, our regional distribution policy is to sell our products through at least one large regional retailer and one large regional wholesaler for each of the seven regions of Russia.

Our distribution channels include national retailers (such as Eldorado, M.Video and Technosila), wholesalers, regional retailers and local retailers accounted for 58.3%, 14.4%, 15.1% and 10.1% of total revenues, respectively, for the nine months ended September 30, 2006. In addition, we sell to discount warehouse retailers which accounted for 2.1% of total revenues for the nine months ended September 30, 2006.

The following table shows our five largest customers for the period indicated.

Customer	Customer description	Product sold	Revenues for nine months ended September 30, 2006	Percentage of total revenues
			(in millions of U.S. dollars)	
Expert Corso	National retailer	Audio-video products and portable electronics	35.0	39.7%
Euroset	National retailer	Mobile telephones	8.5	9.7%
Sky Link	National mobile phone operator	Mobile telephones	2.2	2.5%
Technosila	National retailer	Audio-video products	1.4	1.6%
Elkom technic	Wholesaler	Audio-video products	2.1	2.4%

Marketing and Advertising

As of September 30, 2006, our marketing and advertising department had 11 employees in our Russian department and two employees in our Ukrainian department. Our marketing department designs brochures and advertisements, conducts public relations and tracks market information. In addition, this department facilitates various product promotions and provides point-of-sale brochures and other printed materials. This department plans and purchases advertisements in media such as print, television, Internet, outdoor advertising and radio. We supplement our advertising efforts with a comprehensive public relations program that includes sponsorships of various events, distribution of information to media outlets and creative and unconventional methods of promotion.

Manufacturing and Assembly

Our products are manufactured primarily in Taiwan, Russia and China. We also use our EMS division in certain cases on terms and conditions offered by third party EMS companies. Our products which are manufactured in Russia are assembled mainly from imported components from China, Taiwan and India.

In addition, we design and manufacture high-end audio components under the Sitronics Black Sound label in a design studio in Moscow. We manufacture approximately 55 sets per year with an average price of $20,000 for each set.

Market and Competition

Russia's consumer electronics market is highly competitive, primarily as a result of competition from leading multinational companies. Competition is more severe in the low-price segment of the market because of the regular entry of new participants, including many Chinese producers, and the market saturation of low-price consumer electronics. As a result, available shelf space in retail stores is often limited and difficult to obtain. In addition, the rapid change of technology shortens product life-cycles and consumer electronics products quickly become commoditized. As a result, a product's design is an important method of distinguishing a product. We position our products as good quality, Russian-branded products that are sold at a low to moderate price.

Our strategy is to transition from an OEM to an ODM business model and to design our products, initially including portable electronics and DVD players, rather than selecting an existing design from an OEM manufacturer. The ODM business model is applied primarily by A-brand companies in Russia. We believe that there are very few B-brand Russian consumer electronics companies that design their own products and, as a result, it is difficult to identify any direct competitors using the same strategy.

LCD and Plasma Television Sets

The leaders in this market are LG, Samsung, Sharp and Philips. Our main competitors in this market are Rolsen, Hyundai, Akai and Teckton. We compete in this market based on our wide product range as well as strong relationships with major national wide retail chains (Eldorado, M.Video and Technosila).

DVD Players and Home Theaters

The leaders in this market are LG, Samsung, Panasonic and Pioneer. Our main competitors in this market are Rolsen, Hyundai and BBK. We compete based on our brand name and product quality. This is a mature market with much of its recent growth occurring in the lower-priced segment. Products offered by various companies are very similar in terms of design and functionality. However, brand name and product quality are the main factors influencing consumers rather than price.

Portable Electronics

The leaders in this market are Samsung and Panasonic. Our main competitors in this market are BBK, Hyundai, iRiver and NEXX. We compete based on design and a high level of product adaptation to the local market. This market segment is characterized by rapid technological change and high margins on most products. In addition, technical and design characteristics of products typically outweigh the brand preferences of consumers.

Mobile Telephones

The leaders in this market are Nokia, Motorola and Samsung. Our main competitors in this market are Voxtel, Fly and Pantech. We compete based on a high level of product adaptation to the local market and a competitive price-to-quality ratio. The Russian mobile telephone market is mature and very competitive.

Electronics Manufacturing Services (EMS)

Overview

We provide electronics manufacturing services primarily to multinational companies that operate in Russia. Our manufacturing facilities consist of three integrated production facilities in Zelenograd near Moscow, Russia. Our services include the manufacture and assembly of finished electronics products that are sold under the brand names of our customers, related services, including supply-chain management, metal fabrication and plastic molding and the limited production of components for electronics products. Our customers provide the majority of our supplies, through Russian importers, which are predominantly sourced from China and Taiwan. Proview and Fujitsu-Siemens are our major clients in the information technology industry and TCL Corporation is our major client in the consumer electronics industry. Our revenues for the year ended December 31, 2005 and the nine months ended September 30, 2006 were $56.5 million and $32.0 million, respectively. We had 1,050 employees as of September 30, 2006, 85% of which were production employees and 15% were management and administrative employees.

Competitive Strengths

Our main competitive strengths include the following:

Competitive cost structure

Our two main cost components for electronics manufacturing services are raw materials and labor costs. Due to our location in Russia, we believe that we are able to locally source many of our raw materials (except electronic components), including plastics and metals, at a lower cost than our competitors in Western Europe. In addition, our labor costs are lower than in Western and Central European countries. Furthermore, our close proximity to ultimate consumers in the EMEA market allows us to reduce the overall supply chain costs for our customers.

A flexible and modern production complex

The size of our production facilities and the wide range of our assembly and manufacturing services allow us to quickly establish new lines of production for our customers. We have modern production facilities and we provide Semi Knocked Down ("SKD") and Complete Knocked Down ("CKD") kit assembly for both high- and low-volume production and Liquid Crystal Module ("LCM") assembly. We are the only company in Russia that offers LCM assembly.

Experienced management team and access to highly qualified employees

Our management team is highly experienced in the electronics manufacturing services industry with an average of over ten years in this industry. Our facilities are located in Zelenograd, which is regarded as the "Silicon Valley" of the former USSR and is home to one of Russia's most prominent technical universities and several research institutes. As a result, we are able to recruit from a highly qualified local labor pool.

Located in the center of a fast growing market in close proximity to Europe

Our production complex is located near Moscow which is one of the main transportation hubs for Russia and the center of the CIS, one of the world's fastest growing electronics markets. In addition, we are in close proximity to major European markets. As a result, we are able to provide our clients with lower transportation costs and shorter order lead times to markets in the CIS and Europe as compared to Asian manufacturers.

Strategy

Our goal is to be the leading electronics manufacturing services provider for the consumer electronics industry and the information technology industry in the CIS and to be our clients' key provider of electronics manufacturing services for products intended for European markets. The key elements of our strategy include the following:

Expand our services

We plan to expand our services beyond the assembly of outsourced components to include the design and production of some of the components that are used in our finished products. We also intend to offer our current and prospective customers post-sale services such as warranty and after-warranty repair services that would be available to ultimate consumers of the finished products. The expansion of our services is in response to the demands of our clients for a broader range of services and would enable us to capture a larger portion of our clients' supply chain and thereby increase our revenues.

We currently offer customers fast and flexible manufacturing services with technologies that are unique in Russia. We intend to strengthen our competitive position by investing in our manufacturing facilities to broaden the range of products we are able to manufacture. We plan to have the capability to manufacture LCD television sets, notebook computers and mobile telephones and to expand our existing LCM cleanroom in 2007. We believe that these measures will provide us with an opportunity to increase our revenues and profitability by manufacturing larger volumes of higher-margin products. By 2008, we are also planning to develop surface mount technology facilities which we believe will increase the volume of our value-added products and, as a result, increase our profitability.

We currently utilize approximately 50% of our production facility. Most of our unused space is subleased to third parties, and most of these subleases have terms of one year or less in duration. We are therefore able to quickly expand our production with limited start-up costs and we intend to utilize this production flexibility in the future to meet specific client needs. As we develop our client base, we expect to utilize a greater proportion of our production facility.

Develop our client base

We currently work with multinational companies in Russia. We plan to actively attract other multinational companies that have an established presence in Russia or are planning to enter the Russian market. We also plan to attract major Russian retail chains by producing private label products for these companies. We believe that the diversification of our client base will increase our sales.

We intend to build long-term relationships with a limited number of key multinational clients by investing in our production capabilities according to the specific requirements of these clients. We believe that long-term relationships with key multinational clients will provide us with a stable source of revenues and increased access to prospective clients.

Strengthen our alliances

We intend to establish strategic alliances and joint ventures with one or more global EMS, brand-name consumer electronics or information technology companies that are entering the Russian market by combining our expertise in local component sourcing and our knowledge of the local business environment with our partner's international clients and suppliers.

Increase our profitability

Our goal is to increase our profitability by continuously increasing the efficiency of our business operations and improving our cost structure. In addition, we intend to offer a greater range of higher-margin services and to explore possible synergies with other divisions, including Telecommunication Solutions and IT Solutions.

Leverage relationships with our other divisions

We currently fabricate metal housings for some of the switching boards manufactured by our Telecommunication Solutions division and we may be in the position to provide other services to the group. In addition, we are assessing the potential of cooperation with the manufacturing facilities of our Telecommunication Solutions division in Romania, the Czech Republic and Greece in order to improve utilization rates.

Products and Services

We provide a broad range of tailored electronics manufacturing services to primarily multinational companies that operate in CIS countries and require cost-efficient and high-quality services close to their ultimate consumers. The products we assemble include LCD monitors, desktop computers and other products such as interactive white boards and DVD players.

In addition, our vertically integrated services allow us to source and purchase, transport, build and distribute a complete packaged product for our customers. We provide the following services: sourcing through international and Russian suppliers, international and local purchasing, transportation, PCB mounting, plastic molding, LCM cleanroom assembly, SKD and CKD assembly, metal working and assembly, and distribution. We also provide our customers with warranty services through subcontractors and financial services such as the management of account receivables.

Manufacturing and Assembly

Our manufacturing and assembly facilities are based in Zelenograd near Moscow, Russia and operate as an integrated production complex consisting of our Kvant, Elaks and Elion plants. The total production and functional areas of these plants cover approximately 80,000 square meters, and these facilities have a maximum total annual production capacity of approximately 1.2 million units (in any combination of LCD monitors, desktop computers and television sets). We own the plants and equipment and lease the land on which they are located from the local government under a 49-year lease which expires in 2044. Our production complex is ISO 9001:2000 certified through the year 2009.

We have the following production capabilities:

Manufacturing Facility	Production Capability	Maximum Production Capacity
Kvant	• 2 assembly lines (provided by Daifuku) • LCM cleanroom (Class 100.000) • LCD monitor assembly line	• 60,000 pieces/month • 40,000 pieces/month • 40,000 pieces/month
Elaks	• Surface mount technology • Welding • Electroplating • Step motor production	• Not applicable • 10,000 pieces/month • Not applicable • 30,000 pieces/month
Elion	• Plastic molding • Powder coating • Metal working • Metal assembly	• 24,000 pieces/month • Not applicable • Not applicable • Not applicable

We currently utilize approximately 50% of our production facility. Most of our unused space is subleased to third parties, and most of these subleases have terms of one year or less in duration. We are therefore able to quickly expand our production with limited start-up costs and we intend to utilize this production flexibility in the future to meet specific client needs.

Our storage capabilities are extensive and include two automated warehouses (*i.e.*, equipped with automated put-away and retrieval) which are located next to our production facility and have a functional area of approximately 6,600 square meters. In addition, we operate a bonded warehouse in close proximity to our production complex in which we primarily store raw materials for clients.

Major Suppliers

Our clients select preferred suppliers, predominantly from China and Taiwan, of key components for the products we assemble and manufacture on their behalf. This assures the quality of the materials used. For each transaction, these preferred suppliers designate a Russian importer from whom we purchase these key components. The Russian importers from whom we purchase these key components frequently change from year-to-year. We use Russian suppliers for other raw materials such as metals, plastics and packaging materials.

The table below shows the amount of purchases from our major preferred suppliers for the periods indicated:

Preferred suppliers	Year ended December 31, 2005	Nine months ended September 30, 2006
	(in millions of U.S. dollars)	
Chi Mei Optoelectronics	7.3	7.2
Shanghai SVA-NEC Liquid Crystal Display Co. LTD	—	1.6

Sales and Marketing

Our sales strategy is to develop long-term relationships with large national and international companies that require high-quality finished products and production close to ultimate consumers in the EMEA market and, as a result, are willing to pay a limited premium over similar services offered by EMS companies in China. We actively market our production capabilities relating to LCD monitors and desktop computers to companies with a substantial presence in Russia or that are planning to establish a greater presence in Russia. Our sales and marketing staff generally contact potential customers directly or through existing relationships established by other companies in the Sistema group.

The table below presents our largest customers by revenue for the nine months ended September 30, 2006 and their revenues for the periods indicated.

	Year ended December 31, 2005	Nine months ended September 30, 2006
	(in millions of U.S. dollars)	
Proview (LCD monitors)	19.4	13.0
Fujitsu-Siemens (desktop computers)	1.5	4.0
Sitronics, Consumer Electronics division (CRT televisions)	0.1	3.1
TCL (CRT televisions)	0.4	2.7

Market and Competition

The selection of an EMS company by customers is typically a two-step process. First, based on such factors as location and average costs, customers select the country in which they will ultimately hire a company to assemble their products. In this regard, Russia primarily competes against China and CEE countries. Each country's competitive position differs by product group and is affected by labor costs, the availability and cost of components and raw materials, logistics factors and customs duties. As a result, we market our products and services based on the competitive position of the Russian EMS industry as a whole. For example, Russia is typically selected over other countries for the production of television sets and desktop computers for the Russian market. Therefore, while we generally regard Chinese and European EMS companies as our competitors, we do not directly compete with them for individual contracts. Once Russia has been selected by the customer, we compete directly against other Russian EMS companies.

Although the worldwide EMS market is very competitive, the only global EMS provider in Russia is Elcoteq, whose facilities are located in St. Petersburg. Our main competition is from local companies that primarily focus on the production of CRT television sets and also produce DVD players and desktop computers. Our main Russian competitors include:

Principal Competitors	Location in Russia	Brands produced
Arsenal	Aleksandrov	Polar, Sokol and TCL
Avest	Komsomolsk-na-Amure	Avest, Bork, Sitronics and TCL
IPK	Kaliningrad	Rolsen and Rubin
Radioimport	Kaliningrad	Daewoo, Hitachi, Shivaki and Sokol
Stella plus	Sovetsk	Akira, Funai, JVC, Raduga, Sharp, Sitronics and Sokol
Telebalt	Kaliningrad	Ericsson, ERC, JVC, Samsung and THT
Televolna	Tchernyahovsk	JVC, Polar and Rekord
TOK	Fryazino	LG, Rolsen and Rubin
Vestel	Aleksandrov	JVC, Vestel and Techno

We believe that competition from local companies will decrease in the future due to the limited sources of financing that are generally available for these privately-held companies and because it is more difficult for these companies to obtain the necessary capital to significantly expand their operations. We expect the main source of our competition to come from global EMS companies which may move into Russia to serve both the Russian and EMEA markets.

Employees

The following table sets forth the average number of our employees for the years ended December 31, 2003, 2004 and 2005:

Year ended December 31,	Employee average	Percentage increase / (decrease) over prior year
2005	6,700	8%
2004	6,180	17%
2003	5,275	(25)%

The 25% decrease in the number of average employees between 2002 and 2003 was due to corporate restructuring and implementation of a new organizational structure aimed at reducing costs and increasing profitability in the microelectronics and consumer electronics divisions.

As of September 30, 2006, we employed 10,349 people as follows:

Business unit	Number of employees as of September 30, 2006
Headquarters	74
Telecommunication Solutions(1)	5,296
IT Solutions	1,103
Microelectronic Solutions	2,650
Consumer Electronics	176
EMS	1,050

(1) In June 2006, we acquired Intracom Telecom which employs approximately 2,600 employees (including nearly 1,620 employees in Greece and approximately 990 employees in other countries) as of September 30, 2006.

As of September 30, 2006, 74 people were employed by Sitronics, all of whom are considered corporate. We sublease our corporate headquarters located in Moscow, Russia, which has an area of approximately 799.4 square meters. Corporate functions are as follows: corporate property management, debt management, budgeting, financial control, cash flow management, internal audit, corporate strategy, business division strategy, M&A project management, R&D coordination, public relations management, investment relations management and human resources management.

Environmental Matters

We comply with the environmental laws of the resident countries in which our facilities are located. In June 2006, we commissioned WS Atkins International Ltd ("Atkins") to conduct a Health, Safety and Environment audit of our facilities in Russia and the Czech Republic. In its audit report dated August 2006, Atkins did not identify any significant Health, Safety and Environment risks.

The purpose of the audit was to evaluate our potential liability from historic, ongoing and potential contamination of soil, groundwater and surface water as a result of our manufacturing operations. Based on a risk assessment, Atkins selected the following audit sites:

Business Division	Health, Safety and Environment Audit Sites
Electronics Manufacturing Services	• Kvant site in Zelenograd, Russia • Elaks site in Zelenograd, Russia • Elion site in Zelenograd, Russia
Microelectronic Solutions	• Mikron site in Zelenograd, Russia • Mikron site in Voronezh, Russia
Telecommunication Solutions	• Strom Telecom site in Votice, Czech Republic

At these sites, Atkins interviewed senior management, conducted site visits and reviewed relevant documentation. The audit methodology did not involve direct measurement and analysis of contaminants in the soil or water at these sites. In addition to site reviews, Atkins reviewed our Health, Safety and Environment policy, Product Liability policy and Social Responsibility policy. Atkins did not identify any significant health, safety and environment risks in its audit report.

See "Risk Factors—Risks Relating to Our Business—More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations in the jurisdictions where we operate may have a significant negative effect on our operating results."

Insurance

We maintain insurance against some, but not all, potential risks and losses affecting our operations. No assurance can be given that our insurance will be adequate to cover all of our losses or liabilities, nor can assurance be given that insurance will continue to be available to us on commercially reasonable terms. At present, we have no coverage for business interruption or loss of key management personnel. In the event that significant events were to affect one of our facilities, we could experience substantial property loss and significant disruptions in our production and operations for which we would not be compensated. See "Risk Factors—Risks Relating to Our Business—We do not carry the types of insurance coverage customary in more economically developed countries for a business of our size and nature, and a significant event could result in substantial property loss and an inability to rebuild in a timely manner or at all."

Litigation

We have been, and continue to be, the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in aggregate, a material adverse effect on us. There are no governmental, legal or arbitration proceedings against our group (including any such proceedings which are pending or threatened of which we are aware), during the 12 months preceding the date of this prospectus which may have, or have had in the recent past, significant effects on our financial position or profitability.

MANAGEMENT

Directors and Executive Officers

Our directors and executive officers are as follows:

Name	Year of Birth	Position
Alexander Goncharuk	1956	Chairman
Evgeni Utkin	1958	President and Director
Dmitry Ivanov	1967	First Vice President, Chief Financial Officer
Alexander Lutsenko	1971	First Vice President, Chief of Strategy
Vladimir Yasinsky	1972	First Vice President, Chief Operating Officer
Nihad Hurem	1953	Head of Telecommunication Solutions division, General Director of Strom Telecom
Maxim Ageev	1968	Head of IT Solutions division, President of Kvazar-Micro
Gennady Krasnikov	1958	Head of Microelectronic Solutions division, General Director of NIIME and Mikron
Vladimir Levchenko	1968	Head of Consumer Electronics division, General Director of Sitronics Consumer Electronics
Vladimir Golik	1952	Head of Electronics Manufacturing Services division, General Director of Kvant
Alexandros Manos	1971	General Director of Intracom Telecom
Anton Abugov	1976	Director
Yuval Almog(3)	1950	Director
Igor Busarov(1)(2)	1963	Director
Dmitry Gaev	1951	Director
Socrates Kokkalis(3)	1939	Director
Nikolai Mikhailov(1)(3)	1937	Director
Denis Muratov	1970	Director
Vladimir Uvakin(1)	1975	Director

(1) Member of the Audit Committee of the Board of Directors.

(2) Member of the Budget Committee of the Board of Directors.

(3) Independent Director per the requirements of the Federal Service for Financial Markets.

Alexander Goncharuk has served as our Chairman since February 2006. From 2003 to February 2006, Mr. Goncharuk served as our General Director (President) and has served as our Director since 2002. Mr. Goncharuk currently serves as the President of Sistema, a position he has held since February 2006, and has served on the board of directors of Sistema since 1996. From 1998 to 2003, Mr. Goncharuk served as President of Sistema Telecom, which is responsible for overseeing Sistema's telecommunications businesses. During this time, he served on the board of directors of Mobile TeleSystems, including serving as chairman in 1998 and from 2002 to 2003. From 1995 to 1998 he served as a Vice President of Sistema. From 1987 to 1991, Mr. Goncharuk served as a senior officer at the Main Headquarters of the Navy. He is the chairman of the board of Sistema Telecom, Rosno and JSC "Medsi Group" and a member of the board of directors of Sistema-Hals. All of these companies are affiliated with Sistema. Mr. Goncharuk graduated with honors from both the Sevastopol Naval Engineering Academy in 1978 and the A. Grechko Naval Academy in 1987. His business address is 17/8/9 Prechistenka Street, Building 1, Moscow 119034, Russian Federation.

Evgeni Utkin has served as our President since February 2006 and has served as our Director since April 2006. Prior to this, he was the Head of the Information Technologies Division from 2004. Mr. Utkin founded Kvazar-Micro in 1990 and served as its President until 2006. From 1982 to 1990, he served at the Institute for Microchip Research in Kiev, Ukraine, becoming the Senior Design Manager in 1987. In 1982, he headed a laboratory at the Scientific and Research Institute of Microgears in Kiev, Ukraine. From 1979 to 1981, he worked as an engineer at the Scientific Research Institute of Precision Technology in Zelenograd. Mr. Utkin graduated from the Moscow Institute of Electronic Engineering in 1982 and from the INSEAD business school in 2001. His business address is 39/5 3rd Tverskaya-Yamskaya Street, Building 1, Moscow 125047, Russian Federation.

Dmitry Ivanov has served as our First Vice President and Chief Financial Officer since 2003. From 2001 to 2003, Mr. Ivanov served as the Head of the Department of Financial Analysis at Sistema.

Mr. Ivanov graduated from the Leningrad Shipbuilding Institute in 1991, engaged in post-graduate studies at the Leningrad Financial and Economic Institute in 1991 and received an MBA in 1999 from the Vlerick Leuven Gent Management School.

Alexander Lutsenko has served as our First Vice President and Chief of Strategy since 2004. From 2001 to 2004, Mr. Lutsenko was an executive director in the Department of Corporate Development at Sistema. From 1997 to 2001, Mr. Lutsenko served as the Head of Corporate Finance at RMG Securities. From 1995 to 1997, he was the project manager in the Moscow division of Barents Group-KPMG Russia LLC. From 1994 to 1995, he worked at Societe Generale Vostok Bank in Moscow. Mr. Lutsenko graduated from the Moscow State University for International Relations in 1994 and received an MBA in 1993 from the Institute of Business Administration in Aix-en-Provence (France).

Vladimir Yasinsky has served as our First Vice President and Chief Operating Officer since April 2006. From 1994 to 2006, Mr. Yasinsky held various positions in Kvazar-Micro, including Intel Product Manager, Deputy Director of Distribution, Director of Intel Architecture and Business Development and Finance Vice President. From 2004 to 2006, he served as a board member of Kvazar-Micro. Mr. Yasinsky graduated from Moscow Institute of Physics and Technology in 1995 with a masters degree in applied mathematics and received a certificate from the Amsterdam Institute of Finance in 2003.

Nihad Hurem has served as the Head of the Telecommunication Solutions division since April 2006 and as the General Director of Strom Telecom since November 1993. Mr. Hurem co-founded Strom Telecom in 1993. From 1989 to 1992, he was a co-owner and head of GRAD, a private company in Sarajevo, Bosnia and Herzegovina. Mr. Hurem graduated from the Belgrade University in 1997 with a degree in electrical engineering.

Maxim Ageev has served as the Head of the IT Solutions division since February 2006 and as the President of Kvazar-Micro since February 2006. Mr. Ageev has worked at Kvazar-Micro since 1993, serving in various positions including most recently as Director of the Computer Systems Department from 1998 to 2000, Vice President from 2000 to 2002 and Vice President for Systems Integration from 2002 to 2006. Mr. Ageev graduated from the Kiev Polytechnic Institute in 1993 with a degree in design engineering.

Gennady Krasnikov has served as the Head of the Microelectronic Solutions division since April 2006 and as the General Director of NIIME and Mikron since September 2005. From 2002 to 2003, Mr. Krasnikov served as our General Director (President) and served as our chief designer and research manager from 2003 to 2005. From 1981 to 1997, he worked at the Institute for Scientific Research of Microeletronics and at Mikron where he held various positions, including senior engineer, foreman and assistant manager to the director general for production. In December 2006, Mr. Krasnikov became a member of the Council on Science, Technology and Education, an advisory council to the President of the Russian Federation. Mr. Krasnikov graduated in 1981 from the Moscow Institute of Electronic Engineering with degree in engineering and physics.

Vladimir Levchenko has served as the Head of the Consumer Electronics division since April 2006 and as the General Director of Sitronics Consumer Electronics since October 2006. From September 2003 to October 2005, he served as the General Director of Sitronics Consumer Electronics and from October 2005 to August 2006 as the General Director of Kvant. From 2000 to 2003, he served as deputy general director of the SV Group, a leading Russian consumer electronics retail chain operating under the brand "Technosila." From 1997 to 2000, he served as the commercial manager for Phillips in Moscow. From 1995 to 1997, he served as the general director of Nikitin, a tea packaging and distribution company. In 1995, he served as a deputy commercial director at Kraft Jacobs Suchard Central & Eastern Europe company. From 1993 to 1994, he worked as a commercial representative and team manager at the Moscow representative office of Coca-Cola Refreshments. Mr. Levchenko graduated from Tver State University with a degree in administrative law in 1992.

Vladimir Golik has served as the Head of the Electronics Manufacturing Services division since June 2006, the General Director of Kvant since August 2006 and as the General Director of Elaks since October 2006. Mr. Golik has worked at Kvazar-Micro since 1991, serving in various positions including most recently as Vice President of Corporate Development in 2005. From 1997 to 2005, he served as Vice President of Distribution. From 1994 to 1997, he served as Director of the Distribution and Vendor Group. Mr. Golik graduated from the Russian People's Friendship University in 1979 with a degree in mathematics and from the INSEAD International Executive Program in 2002.

Alexandros Manos has served as General Director of Intracom Telecom since January 2006. Mr. Manos has worked at Intracom Telecom since 1998, serving in various positions including most recently as the Executive Director of the Telecommunication Systems Sector in 2005. In 2004, he served as the General Manager of the Corporate Marketing and International Operations Service Unit. He served as CEO of Conklin Corporation, an Intracom Telecom subsidiary, from 2002 to 2004. Mr. Manos holds a degree in electrical engineering and business economics from Brown University and a masters degree in electrical engineering and computer science from the Massachusetts Institute of Technology.

Anton Abugov has served as our Director since January 2007. Mr. Abugov is First Vice President, Head of Strategy and Development Complex of Sistema, a position he has held since August 2006. From 2003 to 2006, Mr. Abugov was Managing Director of AKB Rosbank, in charge of its Corporate Finance Department. Prior to Rosbank, he was a partner in Eurasia Capital Partners, overseeing investment projects in Eastern European telecoms and Russian petrochemical businesses. From 1997 to 2006, he was strategic adviser to the TAIF Group of Companies, one of the biggest financial-industrial groups in Russia. From 1995 to 2002, Mr. Abugov was at UFG (United Financial Group), and served as the head of corporate finance from 1999. In 1999, he was an adviser to RAO UES. Mr. Abugov graduated from the National Economy Academy under the Government of the Russian Federation with a degree in management. His business address is 10 Leontievsky Lane, Moscow 125009, Russian Federation.

Yuval Almog has served as our Director since January 2007. Since 1986, Mr. Almog has been a venture capitalist with Coral Capital Management and its predecessor, IAI Venture Capital Group. Mr. Almog currently serves on the boards of directors of Celight Inc., Gearworks, Inc., RichFX, Vi[z]rt and Wireless Channels. Prior to his investment career, he spent 14 years as an entrepreneur and operating executive. He has served on the boards of directors of several private and public portfolio companies based in the United States and internationally. Mr. Almog graduated from the University of Alabama with a bachelors degree in computer science and economics and a bachelors degree in mathematics in 1976 and from the Massachusetts Institute of Technology with a masters degree in management in 1979. His business address is 60 South Sixth Street, Suite 350, Minneapolis, Minnesota 55402, United States.

Igor Busarov has served as our Director since 2005. Mr. Busarov is the Head of the Treasury of Sistema, a position he has held since 2000. He graduated from the Moscow Institute of Physics and Technology in 1986 with a degree in physical and mathematical sciences. His business address is 17/8/9 Prechistenka Street, Building 1, Moscow 119034, Russia.

Dmitry Gaev has served as our Director since 2005. Mr. Gaev is Head of the Moscow Metropolitan, a position he has held since 1995, and from 1990 to 1995, he served as first deputy head of the Moscow Metropolitan. From 1973 to 1982, Mr. Gaev worked in the railways, serving in positions at the Moscow Railway Department and the Ministry of Railways. Mr. Gaev graduated from the Moscow Institute of Railway Transportation Engineers and the Moscow Institute of Management in 1986. His business address is 41-a Prospect Mira, 129110 Moscow, Russian Federation.

Socrates Kokkalis has served as our Director since April 2006. Mr. Kokkalis is the Founder, Chairman and CEO of Intracom Holdings, a leading company in the field of telecommunications systems, electronics and information technology. Mr. Kokkalis is also the Founder and Chairman of Intralot S.A., one of the leading global suppliers of integrated gaming and transaction processing systems to state-licensed lottery organizations. Mr. Kokkalis is the President of Olympiakos soccer and basketball teams, a popular sports club in Greece. Mr. Kokkalis is also the President of FLASH News Radio. Mr. Kokkalis is the President of the Board of Trustees of Athens Information Technology (AIT), a non-profit educational and research centre established in Athens by Intracom Holdings. He received a masters degree in physics and electronics from Humbolt University of Berlin, Germany, in 1963. His business address is Marcopoulou Avenue, Peania 190 02, Attica, Greece.

Nikolai Mikhailov has served as our Director since 2005. Since 2001, Mr. Mikhailov has served on the board of directors of Sistema. From 1997 to 2001, he served as a First Deputy Minister of Defense of the Russian Federation. From 1996 to 1997, he was a Deputy Secretary of the Security Council of the Russian Federation. Mr. Mikhailov currently serves on the board of directors of Sistema-Venture

OJSC, Concern RTI-Systems OJSC, Business Informatisation System CJSC, NII Stali OJSC, Dubna-Sistema OJSC and DMZ-Kamov OJSC. Most of these companies are affiliated with Sistema. From 1987 to 1992, Mr. Mikhailov managed Vympel (formerly the Central Scientific & Production Association Vympel). From 1979 to 1987, he headed the Scientific Research Institute for Wireless Radio Set Construction. He was also a department chair at the Moscow Institute of Physics and Technology from 1993 to 2001. He is a full member (academician) of a number of Russian and international academies. His honors include Laureate of the USSR State Prize (1984), State Prize of the Russian Federation (1997), Order of the Red Banner of Labor, Badge of Honor, Merits to Motherland of the 4th degree and a number of medals. Mr. Mikhailov graduated in 1961 from the N. Bauman Moscow School of Engineering. His business address is 17/8/9 Prechistenka Street, Building 1, Moscow 119034, Russian Federation.

Denis Muratov has served as our Director since January 2007. Mr. Muratov is Vice President for Innovations and Science of Sistema, a position he has held since February 2006. From 1992 to 2004, he worked in Sweden, heading up several companies: Anton Invest AB, Nordic Industrial Development AB, Scantat AB, and Media Resources International Scandinavia AB. In 2004, Mr. Muratov was appointed as a General Director of the Idea Innovation and Industrial Technopark in Kazan, as Chairman of the Board of Kamskiy Industrial Park "Master" and served as economic adviser to the First Vice Premier of the Republic of Tatarstan. Mr. Muratov studied in the Sverdlovsk Institute of Architecture and graduated from the Chalmers University of Technology, Goteborg, Sweden with a masters degree in architecture. His business address is 10 Leontievsky Lane, Moscow 125009, Russian Federation.

Vladimir Uvakin has served as our Director since January 2007. Mr. Uvakin is Head of the Corporate Property Department of Sistema, a position he has held since August 2006. Prior to this position, he was the Head of the Legal Department of the "National Container Company" Group. From 2002 to 2004, Mr. Uvakin was the Head of the Legal Department of JSC Sevmorput-Capital and the Head of the Corporate Department of JSC Murmansk Shipping Company. From 2000 to 2002, he was a senior lawyer in JSC Lukoil Arctic Tanker. From 1998 to 2000, he was an attorney in CSC Architektonika. Mr. Uvakin graduated from Baltic State Fishing Fleet Academy with a degree in navigational engineering in 1997 and graduated from the Moscow Institute for International Relations with a degree in law in 2000. His business address is 17/8/9 Prechistenka Street, Building 1, Moscow 119034, Russian Federation.

The terms of the Directors expire on the date of our next annual general shareholders' meeting, which will take place in June 2007.

Board of Directors

Our Board of Directors has ten members elected by a majority vote of shareholders at each annual General Meeting of Shareholders through cumulative voting. Directors may be re-elected an unlimited number of times. The Board of Directors is responsible for our overall management, except matters reserved for our shareholders. See "Description of Share Capital and Certain Requirements of Russian Legislation—General Meetings of Shareholders" for more information regarding the competence of our General Meeting of Shareholders.

Management Board

Our day-to-day activities are managed by the Management Board, which is led by Mr. Evgeni Utkin, the Chairman of the Management Board. Members of the Management Board are re-elected annually by the Board of Directors from nominees submitted by our President. The Management Board reports to, and is responsible for the implementation of decisions taken by, our shareholders and Board of Directors. Among other things, the Management Board coordinates activities of our subsidiaries, develops and controls the implementation of our investment and financial projects, adopts certain of our internal bylaws and represents us in labor disputes.

Audit Committee

The Audit Committee is currently comprised of three members: Nikolai Mikhailov, Igor Busarov and Vladimir Uvakin. Mr. Mikhailov serves as Chairman of the Committee. The primary function of the Audit Committee is to provide objective information to and advise the Board of Directors regarding the:

- completeness and authenticity of our financial reports;
- qualification and independence of the independent auditor and the quality of its service; and
- reliability and effectiveness of the Company's internal control system.

Budget Committee

The Budget Committee is currently comprised of three members: Igor Busarov, Dmitry Ivanov and Olga Shurygina, Head of Financial Department of Sistema. Mr. Busarov serves as Chairman of the Committee. The primary functions of the Budget Committee include:

- undertaking a preliminary review of budgets, business plans, and company investment plans, as well as making recommendations to our Board of Directors on such issues;
- supervising the process of developing and executing budgets and business plans; and
- ensuring prompt decision making on key issues related to the development and execution of budgets and business plans.

Review Commission

The Review Commission verifies the accuracy of our financial reporting under Russian law and generally supervises our financial activity. Members of the Review Commission are nominated and elected by the shareholders for a term of one year. A member of the Review Commission may not simultaneously serve as a member of our Board of Directors or counting commission or as our President or Chief Accountant. The Review Commission has three members: (1) Elena Rudova, Deputy Head of the Revision Department of Sistema; (2) Vasilii Platoshin, Chief Accountant of Sistema; and (3) Artem Popov, Executive Director of the Financial Planning & Budget Department of Sistema.

Remuneration of Directors and Executive Officers

The aggregate amount of remuneration paid by us to the above named directors and executive officers as a group for services in all capacities provided to us during the year ended December 31, 2005 was approximately $2.0 million in salary and bonuses. We do not have employment contracts with directors. Employment contracts with executive officers generally provide for a payment of up to one year's salary and bonus upon termination of employment by the company for cause or upon resignation by the employee due to a material change by the company of the employee's responsibilities, authority or duties. We do not provide pension, retirement or similar benefits to our directors and executive officers.

Share Bonus and Option Plan

We intend to establish a share bonus and/or share option plan for members of our Board of Directors, senior management and other key personnel. We may use up to 9.363% of our shares for such plans. These shares are currently held by Sitronics Management LLC, one of our wholly owned subsidiaries. We believe that our plan will be an effective financial means of incentivising and retaining our top managers and ensuring that their interests are aligned with those of our shareholders.

Loans to Directors and Executive Officers

As of the date of this prospectus, there were no outstanding loans granted by us to our directors and executive officers and no guarantees provided for their benefit.

Corporate Governance

We comply with the corporate governance requirements applicable to Russian public companies listed on Russian stock exchanges. Our shares have been admitted to list "V" on the Moscow Stock Exchange since December 8, 2006 and, as a result, we are required to comply with a number of corporate governance requirements as of the listing date. Such requirements include the: (1) obligation to have at least one independent director, (2) formation of an audit committee, (3) adoption of a bylaw on insider trading and (4) implementation of internal control procedures. We are in full compliance with these requirements. In addition, we observe the code of corporate conduct, as recommended by the FSFM.

Interests of Directors and Officers

Certain of our directors and executive officers serve as directors and executive officers of our affiliates (including Sistema, our controlling shareholder, and other companies within the Sistema group), as set out above. We engage in transactions with some of these affiliates, including transactions in the ordinary course of business. See "Related Party Transactions." As a result, potential conflicts of interest between these directors' and officers' duties to us and their other duties to companies within the Sistema group could arise. Under Russian legislation, certain transactions defined as "interested party transactions" require approval by our disinterested directors or shareholders. See "Description of Share Capital and Certain Requirements of Russian Legislation—Interested Party Transactions."

Certain of our directors and executive officers own shares of Sistema and other Sistema group companies. In particular, our directors Alexander Goncharuk and Nikolai Mikhailov own 2.00% and 0.14%, respectively, of Sistema's issued shares. In addition, our President, Evgeni Utkin, beneficially owns a majority interest in Melrose Holding Company, which owns a 49% interest in Kvazar-Micro, and our First Vice President and Chief Operating Officer, Vladimir Yasinsky, and the head of our IT Solutions division and President of Kvazar-Micro, Maxim Ageev, each own an interest in Melrose Holding Company. See "Related Party Transactions—Acquisition of Kvazar-Micro Shares." Our director, Socrates Kokkalis, is the founder, chairman and CEO of Intracom Holdings and owns 24.63% of Intracom Holdings which owns 49% of Intracom Telecom. As a result of certain of our directors and officers owning shares and thereby having a private economic interest in our sister and other affiliated companies, potential conflicts of interest between these directors' and officers' duties to us and their private interests could arise.

With respect to both types of potential conflicts of interest, we believe that our management decision making is transparent within the group and such potential conflicts of interest have not affected our business.

Certain of our directors and executive officers own our shares. See "Principal and Selling Shareholders." None of our directors and executive officers hold options with respect to our shares.

Litigation Statement about Directors and Officers

At the date of this prospectus, none of our directors or executive officers for at least the previous five years:

- has had any convictions in relation to fraudulent offenses; nor
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; nor
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

RELATED PARTY TRANSACTIONS

We are the technology business segment of Sistema and a substantial majority of our business is conducted with the Sistema group companies, as described in this prospectus. See also "Risk Factors—Risks Relating to Our Business—We have engaged and will likely continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favorable terms than could be obtained in arm's-length transactions." We believe that the terms of the majority of these transactions were determined by reference to market prices and terms; however, transactions with related parties pose the risks of our entering into transactions on terms less favorable than could be obtained in arm's-length transactions with unrelated parties. See also note 23 to our annual consolidated financial statements and note 26 to our interim consolidated financial statements.

The table below summarizes our related party transactions for the periods presented.

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	(in thousands of U.S. dollars)				
Sales of software and telecommunication equipment	37,300	68,800	227,972	183,957	180,578
Systems integration	—	—	68,722	45,289	41,047
Sales of smart cards	—	—	—	—	22,097
Sales of handsets	—	12,592	12,007	10,981	2,155
Interest income	—	—	—	—	2,122
Interest expense	(1,121)	(2,956)	(6,219)	(4,968)	(314)
Other	(122)	1,148	2,313	3,929	1,384

Sales of software and telecommunication equipment

Mobile TeleSystems ("MTS")

During the years ended December 31, 2003, 2004 and 2005, Strom Telecom entered into agreements with MTS, a subsidiary of Sistema, and its affiliate Mobile TeleSystems Belarus ("MTS Belarus") for sale of a billing system, a communications software support system and sale of telecommunication equipment. Pursuant to these contracts, Strom Telecom sold software, equipment and related services for approximately $26.6 million, $31.8 million and $178.4 million during the years ended December 31, 2003, 2004 and 2005, respectively.

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

Since September 30, 2006 and through the date of this prospectus, we have continued these transactions in the normal course of our business. We do not currently have U.S. GAAP amounts for these transactions for the period after September 30, 2006.

Comstar-United TeleSystems ("Comstar UTS")

During the years ended December 31, 2003, 2004 and 2005, Strom Telecom and Mediatel entered into several agreements with subsidiaries of Sistema currently comprising Comstar UTS (MGTS, MTU-Inform, Comstar and Telmos). Pursuant to these contracts, Strom Telecom and Mediatel sold telecommunication equipment for approximately $10.7 million, $21.5 million and $25.9 million in years ended December 31, 2003, 2004 and 2005, respectively.

During the nine months ended September 30, 2005 and 2006, Strom Telecom and the Telecommunication Solutions division provided billing system maintenance services to MGTS. Revenues from sale of services to MGTS amounted to $18.3 million and $15.3 million during the nine months ended September 30, 2005 and 2006, respectively.

Since September 30, 2006 and through the date of this prospectus, we have continued these transactions in the normal course of our business. We do not currently have U.S. GAAP amounts for these transactions for the period after September 30, 2006.

Invest-Svyaz Holding

During the years ended December 31, 2004 and 2005, Strom Telecom and Mediatel sold telecommunication equipment to Invest-Svyaz Holding, a subsidiary of Sistema, for $15.5 million and $18.3 million, respectively.

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

Since September 30, 2006 and through the date of this prospectus, we have continued these transactions in the normal course of our business. We do not currently have U.S. GAAP amounts for these transactions for the period after September 30, 2006.

Multiregional Transit Telecom ("MTT")

During the year ended December 31, 2005, Strom Telecom sold telecommunication equipment to MTT, an affiliate of Sistema, for $5.4 million.

During the nine months ended September 30, 2005, Strom Telecom sold telecommunication equipment to MTT for $3.4 million.

Since September 30, 2006 and through the date of this prospectus, we have continued these transactions in the normal course of our business. We do not currently have U.S. GAAP amounts for these transactions for the period after September 30, 2006.

Systems integration

During the year ended December 31, 2005, Kvazar-Micro rendered systems integration services to Sistema and its subsidiaries in the amount of $68.7 million, including to MTS and UMC for $43.6 million and $12.6 million, respectively.

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

Since September 30, 2006 and through the date of this prospectus, we have continued these transactions in the normal course of our business. We do not currently have U.S. GAAP amounts for these transactions for the period after September 30, 2006.

Sales of handsets

During the years ended December 31, 2004 and 2005, we sold handsets to Sky Link, an affiliate of Sistema, for $12.6 million and $12.0 million, respectively.

During the nine months ended September 30, 2005 and 2006, we sold handsets to Sky Link for $11.0 million and $2.2 million, respectively.

Since September 30, 2006 and through the date of this prospectus, we have continued these transactions in the normal course of our business. We do not currently have U.S. GAAP amounts for these transactions for the period after September 30, 2006.

Sales of smart cards

During the nine months ended September 30, 2006, the Microelectronic Solutions division sold smart cards to MTS for $22.1 million.

Since September 30, 2006 and through the date of this prospectus, we have continued these transactions in the normal course of our business. We do not currently have U.S. GAAP amounts for these transactions for the period after September 30, 2006.

Rental of Office Premises

In July 2004, Kvazar-Micro.ru entered into a long-term agreement with Sistema for an operating lease of office premises in Moscow, which expires in 2011. Annual rent is $0.4 million.

Interest income

During the nine months ended September 30, 2006, we earned $2.1 million from deposits placed at MBRD, an affiliate of Sistema.

Since September 30, 2006 and through the date of this prospectus, we have continued these transactions in the normal course of our business. We do not currently have U.S. GAAP amounts for these transactions for the period after September 30, 2006.

Interest expense

During the years ended December 31, 2003, 2004 and 2005, we had several short-term and long-term loans outstanding from Sistema and its subsidiaries, including MBRD. Interest expense on these loans amounted to $1.1 million, $3.0 million and $6.2 million for the years ended December 31, 2003, 2004 and 2005, respectively.

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

Since September 30, 2006 and through the date of this prospectus, we have continued these transactions in the normal course of our business. We do not currently have U.S. GAAP amounts for these transactions for the period after September 30, 2006.

Transactions and balances with Intracom Holdings

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

Since September 30, 2006 and through the date of this prospectus, we have continued these transactions in the normal course of our business. We do not currently have U.S. GAAP amounts for these transactions for the period after September 30, 2006.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions—Intracom Telecom."

Sale and Purchase of Strom Telecom Shares

In July 2004, we entered into an agreement with a party controlled by management of Strom Telecom, for the disposal of 33% of the shares of Strom Telecom for a cash consideration of $2.0 million. At the date of the transaction, the fair value of these shares was determined by our management to be approximately equal to the book value. We recorded the difference of $1.5 million between the fair value of the stake and the consideration received as compensation to management.

In July 2005, we reacquired this 33% interest in Strom Telecom for $19.8 million. The fair value of the acquired net assets as of the date of this transaction was determined to be in excess of the purchase price. The allocation of purchase price decreased cost of property, plant & equipment by $3.9 million.

Acquisitions

In connection with Sistema's reorganization and consolidation of its technology segment under Sitronics, in October 2005, we acquired a 51% interest in Kvazar-Micro from Sistema for a cash consideration of $22.6 million and in December 2005, we acquired a 51% interest in Sitronics Telecom Solutions for a cash consideration of $1.9 million. See note 3 to our annual consolidated financial statements.

Equity Transactions

In March 2006, Sitronics issued to Sistema and Ecu Gest Holding S.A., a 99% owned subsidiary of Sistema, 5,817,000,000 shares for $206.8 million ($56.8 million was paid in 2005 and $150.0 million in the nine months ended September 30, 2006).

In March 2006, Sitronics Management, a 100% subsidiary of Sitronics, purchased from Sistema 1,133,995,091 shares of Sitronics, for a cash consideration of $40.9 million. The shares are considered treasury stock under U.S. GAAP.

Concurrently with the purchase of treasury stock, Sistema approved the sale of 385,188,550 shares of Sitronics to Mr. Alexander Goncharuk, the newly-appointed President of Sistema, who served as Sitronics' President from July 2003 to February 2006. The shares were sold for $13.8 million with a payment date not later than 2010. At the date of the transaction, the fair value of shares sold to Mr. Goncharuk was estimated at $105.0 million, the award being attributed to his employment by Sistema.

In January 2007, Sitronics Management acquired 188,683,000 shares from NED Electronic GmbH, which is 50% owned by certain managers of Strom Telecom, including Mr. Nihad Hurem, who owns 20%. Mr. Hurem is the head of our Telecommunication Solutions division. The purchase price of $36.0 million will be paid within 30 days of the signing of the agreement. See note 24 to our interim consolidated financial statements.

Guarantees

In the year ended December 31, 2005, we issued guarantees to Commerzbank for loans obtained by Invest-Svyaz-Holding, a subsidiary of Sistema, for a total amount of $18.1 million. The guarantees expire in 2007. Invest-Svyaz-Holding is using Commerzbank loans to finance acquisitions of our products to be further leased to other subsidiaries of the Sistema group.

Acquisition of Kvazar-Micro shares

We currently own a 51% interest in Kvazar-Micro, the subsidiary comprising our IT Solutions division. We intend to acquire the remaining 49% interest in Kvazar-Micro, which is owned by Melrose Holding Company. Melrose Holding Company is beneficially owned by a group of former and current managers of Kvazar-Micro. Mr. Evgeni Utkin, our President, beneficially owns a majority interest in Melrose Holding Company. Mr. Vladimir Yasinsky, our First Vice President and Chief Operating Officer, and Mr. Maxim Ageev, the head of our IT Solutions division and President of Kvazar-Micro, also beneficially own an interest in Melrose Holding Company. The proposed acquisition will be approved in accordance with all requirements of Russian law. In connection with such approval process, the purchase price for the interest held by Melrose Holding Company will be determined in conjunction with the advice of an international investment bank or appraiser. Although we intend to follow applicable Russian law requirements in connection with the proposed acquisition of such interest in Kvazar-Micro, we cannot guarantee that such approvals will be forthcoming to enable us to complete such purchase.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information regarding the current ownership of our shares as reflected in our share register, and as adjusted to reflect the sale of shares in this offering (assuming no exercise of the Underwriters' Over-allotment Option):

Name of Owner	Shares Owned Before the Offering		Shares Offered	Shares Owned After the Offering	
	Number	%		Number	%
Sistema[(1)]	4,797,851,839	59.994	—	4,797,851,839	50.255
Ecu Gest Holding S.A.[(2)]	1,309,641,070	16.376	—	1,309,641,070	13.718
Sitronics Management LLC[(3)]	937,489,541	11.723	—	937,489,541	9.820
Alexander Goncharuk[(4)]	385,188,550	4.817	85,000,000	300,188,550	3.144
EBRD	293,476,990	3.670	—	293,476,990	3.074
Gennady Krasnikov[(5)]	189,234,000	2.366	38,000,000	151,234,000	1.584
Laminea JSC[(6)]	41,150,000	0.515	—	41,150,000	0.431
Alexander Titov[(7)]	21,608,000	0.270	2,160,800	19,447,200	0.204
Other	21,608,000	0.270	—	21,608,000	0.226
Free float (including GDR holders)	—	—	—	1,675,000,000	17.545
Total	7,997,247,990	100.00	125,160,800	9,547,087,190	100.00

(1) Vladimir Evtushenkov, a citizen of Russia, beneficially owns 62.13% of Sistema.

(2) Ecu Gest is a 99% owned subsidiary of Sistema, and the remaining 1% is owned by Mr. Evtushenkov.

(3) Sitronics Management is a wholly owned subsidiary of Sitronics. In our US GAAP financial statements included elsewhere in this prospectus, these shares are considered treasury shares.

(4) Mr. Goncharuk is our Chairman, as well as the President and a member of the board of directors of Sistema. See "Management" for additional information. The business address of Mr. Goncharuk is 17/8/9 Prechistenka Street, Building 1, Moscow 119034, Russian Federation.

(5) Mr. Krasnikov is the head of our Microelectronic Solutions division. The business address of Mr. Krasnikov is 12 Zapadny proezd, Building 1, Zelenograd, Moscow 124460, Russian Federation.

(6) Sistema consolidates Laminea in its US GAAP financial statements pursuant to FIN 46R.

(7) Mr. Titov is a citizen of Russia and his address is 4-527 Zelenograd, Moscow 124536, Russian Federation.

None of our shareholders has voting rights different from any other holders of our shares. We are not aware of any arrangements that may result in a change of control of Sitronics.

In September 2006, we entered into a subscription agreement with the EBRD pursuant to which we issued 293,476,990 new shares which were acquired by EBRD for a total cash consideration of $80 million. As a result, EBRD became a holder of a 3.67% interest in Sitronics.

In addition, Sistema and EBRD entered into a shareholders' agreement pursuant to which Sistema agreed, for the duration of the agreement, not to reduce its interest in Sitronics to less than 50% plus one share without the prior consent of EBRD. Furthermore, if Sistema decides to sell its controlling interest in Sitronics, it must offer EBRD the opportunity to sell its shares on the same terms. In addition, if Sistema contemplates a purchase of additional shares in Sitronics, either existing or newly issued, EBRD must be given the opportunity to participate in such a purchase on a pro rata basis, unless such purchase is necessary or desirable for the success of an initial public offering of our shares. Sistema has the right of first refusal if EBRD decides to divest its interest in Sitronics. EBRD also agreed not to sell any of its shares for 180 days following the initial public offering of our shares. The term of the agreement extends up to two years after the date of the offering, except in certain circumstances.

In addition, simultaneously with the subscription agreement and the shareholders' agreement, Sistema entered into a put option agreement with EBRD pursuant to which EBRD has the right to sell to Sistema all of its shares in Sitronics until, under certain circumstances, up to two years after the date of the offering. If EBRD exercises its put option, Sistema will pay EBRD approximately $80 million plus (1) interest at a rate of 10% per annum if the value of our shares is between $1.6 billion and $2.1 billion upon the completion of the offering or (2) interest at the London interbank rate plus 2.5% per annum if the value of our shares is less than $1.6 billion or more than $2.1 billion upon the completion of the offering.

In January 2007, Sitronics Management LLC acquired 188,683,000 shares (representing 2.36% of our shares) from NED Electronic GmbH, which is 50% owned by certain managers of Strom Telecom including Mr. Nihad Hurem, who owns 20%. Mr. Hurem is the head of our Telecommunication Solutions division. The purchase price of $36.0 million will be paid within 30 days of the signing of the agreement. These shares will be used by us for financing of our future acquisitions and other transactions.

Changes in Shareholders' Equity

The following table sets forth in Russian rubles, as of the date of this prospectus, the changes in our share capital that have occurred within the past three financial years.

Year	Description	Number of shares issued	Nominal value per share	Increase in total issued share capital	Total issued share capital after issuance	Total number of issued shares after issuance
2005	Issuance of shares	5,817,000,000	1	5,817,000,000	7,703,771,000	7,703,771,000
2006	Issuance of shares	293,476,990	1	293,476,990	7,997,247,990	7,997,247,990

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF RUSSIAN LEGISLATION

We describe below our registered shares, the material provisions of our charter in effect on the date of this prospectus and certain requirements of Russian legislation. References in this section to "we," "us" and "our" refer to Sitronics only.

GDR holders will be able to exercise their rights with respect to the shares underlying the GDRs only in accordance with the provisions of the Deposit Agreements and the relevant requirements of Russian law. See "Description of the Global Depositary Receipts" for more information.

Our Purpose

Our objects and purposes are set out in Section 2 of our charter. Our primary purpose as set out therein is to profit from the conduct of business.

Description of Share Capital

Pursuant to the Joint Stock Companies Law, we have the right to issue registered ordinary shares, preferred shares and other securities provided for by the legislation of the Russian Federation with respect to securities. Our share capital consists of 7,997,247,990 ordinary shares, each with a nominal value of 1 ruble, which are fully paid, issued and outstanding. In addition, we are authorized by our charter to issue an additional 7,410,294,010 ordinary shares. Under Russian legislation, charter capital refers to the aggregate nominal value of the issued and outstanding shares. No preferred shares are authorized or outstanding. Preferred shares may only be issued if amendments have been made to our charter pursuant to a resolution of the general meeting of shareholders.

The Joint Stock Companies Law requires us to dispose of any of our shares that we acquire within one year of their acquisition or, failing that, reduce our charter capital. We refer to such shares as treasury shares for purposes hereof. Russian legislation does not allow for the voting of such treasury shares. Currently, we do not have treasury shares. Any of our shares that are owned by our subsidiaries are not considered treasury shares under Russian law (*i.e*., they are considered outstanding shares and unless the context requires otherwise, such shares are considered outstanding for purposes of the ownership percentages presented in this prospectus), and our subsidiaries are able to vote such shares and dispose of such shares without any further corporate actions by our shareholders or board of directors. Sitronics Management LLC, a wholly owned subsidiary, owns 9.36% of our shares. See "Principal and Selling Shareholders." In our consolidated financial statements prepared under U.S. GAAP, these shares are considered treasury shares (*i.e.*, they are considered not outstanding).

Currently, we have fewer than 1,000 holders of voting shares, which determines the applicability of certain provisions of the Joint Stock Companies Law, as described below. We expect that immediately following this offering we will continue to have fewer than 1,000 holders of voting shares, in particular due to the status of the Depositary as the holder of all of the shares underlying the GDRs.

Rights Attaching to Shares

Holders of our shares have the right to vote at all shareholders' meetings. As required by the Joint Stock Companies Law and our charter, all of our shares have the same nominal value and grant to their holders identical rights. Each fully paid share, except for treasury shares, gives its holder the right to:

- freely transfer the shares without our consent and the consent of other shareholders;
- receive dividends;
- participate in shareholders' meetings and vote on all matters within shareholders competence;
- transfer voting rights to its representative on the basis of a power of attorney;
- exercise its pre-emptive right in certain circumstances, as determined by the Joint Stock Companies Law;
- participate in the election and dismissal of members of the board of directors and the review commission;

- if holding, alone or with other holders, 2% or more of the voting stock, within 100 days after the end of our fiscal year, make proposals for the agenda of the annual shareholders' meeting and nominate candidates to the board of directors, collective and sole executive bodies, the review commission and the counting commission;
- if holding, alone or with other holders, 10% or more of the voting stock, demand from the board of directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the review commission or by an external auditor;
- demand, under the following circumstances, the repurchase by us of all or some of the shares owned by it, as long as such holder voted against or did not participate in the voting on the decision approving the following:
  - any reorganization;
  - the conclusion of a major transaction, as defined under Russian law; and
  - any amendment of our charter or approval of a restated version of our charter in a manner that restricts the holder's rights;
- upon liquidation, receive a proportionate amount of our property after our obligations are fulfilled;
- have access to certain company documents, receive copies for a reasonable fee and, if holding alone or with other holders, 25% or more of the voting stock, have free access to accounting documents and minutes of the management board meetings; and
- exercise other rights of a shareholder provided by our charter, Russian legislation and decisions of shareholders' meetings approved in accordance with its competence.

Pre-emptive Rights

The Joint Stock Companies Law provides existing shareholders with a pre-emptive right to purchase shares or securities convertible into shares during an open subscription in an amount proportionate to their existing shareholdings. In addition, the Joint Stock Companies Law provides shareholders with a pre-emptive right to purchase shares or securities convertible into shares in an amount proportionate to their existing shareholdings during a closed subscription if the shareholders voted against or did not participate in the voting on the decision approving such subscription. The pre-emptive right does not apply to a closed subscription to existing shareholders, provided that such shareholders may each acquire a whole number of shares or securities convertible into shares being placed in an amount proportionate to their existing shareholdings. We must provide shareholders with written notice of their pre-emptive right to purchase shares and the period during which shareholders can exercise their pre-emptive rights. Such period may not be less than 20 or, under certain circumstances, 45 days. We may not sell the shares or securities convertible into shares which are subject to the pre-emptive rights during this period.

Dividends

The Joint Stock Companies Law and our charter set forth the procedure for determining the quarterly and annual dividends that we may distribute to our shareholders. We may declare dividends based on our first quarter, six month, nine month or annual results. However, we expect to declare dividends on the basis of annual results. Dividends are recommended to a shareholders' meeting by a majority vote of the board of directors, and approved by the shareholders' meeting by a majority vote. A decision on quarterly, six month or nine month dividends must be taken within three months after the end of the respective quarter at a shareholders' meeting, and a decision on annual dividends must be taken at the annual general shareholders' meeting. The dividend approved at the shareholders' meeting may not be more than the amount recommended by the board of directors. Dividends are distributed to holders of our shares as of the record date for the shareholders' meeting approving the dividends. See "—General Meetings of Shareholders—Notice and Participation." Dividends are not paid on treasury shares.

The Joint Stock Companies Law allows dividends to be declared only out of net profits calculated under Russian accounting standards and as long as the following conditions have been met:

- the charter capital of the company has been paid in full;

- the value of the company's net assets on the date of adoption of decision to pay dividends is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company;
- the company has repurchased all shares from shareholders having the right to demand repurchase; and
- the company is not, and would not become, insolvent as the result of the proposed dividend payment.

Distribution to Shareholders on Liquidation

Under Russian legislation, liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Joint Stock Companies Law and our charter allow us to be liquidated:

- by a three-quarters majority vote of a shareholders' meeting; or
- by a court order.

Following a decision to liquidate the company, the right to manage our affairs would pass to a liquidation commission appointed by a shareholders' meeting. In the case of an involuntary liquidation, the court may vest the duty to liquidate the company to its shareholders. Creditors may file claims within a period to be determined by the liquidation commission, but such period must not be less than two months from the date of publication of notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

(1) individuals owed compensation for injuries, deaths or moral damages;

(2) employees;

(3) federal and local governmental entities claiming taxes and similar payments to the federal and local budgets and to non-budgetary funds; and

(4) other creditors in accordance with Russian legislation.

Claims of creditors in obligations secured by a pledge of the company's property ("secured claims") are satisfied out of the proceeds of sale of the pledged property, prior to claims of any other creditors, except for the creditors of priorities of (1) and (2) above, provided that claims of such creditors arose before the pledge agreements in respect of the company's property were made. To the extent that the proceeds of sale of the pledged property are not sufficient to satisfy secured claims, the latter are satisfied simultaneously with claims of the fourth-priority creditors as described immediately above.

The Federal Law on Insolvency (Bankruptcy), however, provides for a different order of priority for creditors' claims in the event of bankruptcy.

The remaining assets of a company are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders having the right to demand repurchase;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares determined by the company's charter, if any; and
- payments to holders of ordinary and preferred shares.

Liability of Shareholders

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and bear only the risk of loss of their investment. This may not be the case, however, when company is capable of determining decisions made by another company. The company capable of determining such decisions is called an "effective parent." The company whose decisions are capable of being so determined is called an "effective subsidiary." The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between such persons; and
- the effective parent gives binding instructions to the effective subsidiary.

Thus, a shareholder of an effective parent is not itself liable for the debts of the effective parent's effective subsidiary, unless that shareholder is itself an effective parent of the effective parent. Accordingly, you will not be personally liable for our debts or those of our effective subsidiaries unless you control our business, and the conditions set forth above are met.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt resulting from the fault of an effective parent only when the effective parent has used the right to give binding instructions, knowing that the consequence of carrying out this action would be insolvency of this effective subsidiary. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises, such as through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to take any action or fail to take any action knowing that such action or failure to take action would result in losses.

Charter Capital Increase

We may increase our charter capital by:

- issuing new shares, or
- increasing the nominal value of previously issued shares.

A decision on any issuance of shares or securities convertible into shares by closed subscription, or an issuance by open subscription of ordinary shares or securities convertible into ordinary shares constituting 25% or more of the number of issued ordinary shares, requires a three-quarters majority vote of a shareholders' meeting. A decision to increase the charter capital by increasing the nominal value of issued shares requires a majority vote of a shareholders' meeting. In addition, the issuance of shares above the number of authorized and non-issued shares provided in our charter necessitates a charter amendment, which requires a three-quarters majority vote of a shareholders' meeting.

The Joint Stock Companies Law requires that the value of newly issued shares be determined by the board of directors based on their market value but not less than their nominal value. The price of newly-issued shares for existing shareholders exercising their pre-emptive right to purchase shares could be less than the price paid by third parties, but not less than 90% of the price paid by third parties. Fees paid to intermediaries may not exceed 10% of the shares placement price. The board of directors shall value any in-kind contributions for new shares, based on the appraisal report of an independent appraiser.

Russian securities regulations set out detailed procedures for the issuance and registration of shares of a joint stock company. These procedures require:

- prior registration of a share issuance with the FSFM;
- public disclosure of information relating to the share issuance in certain defined cases; and
- following the placement of the shares, registration and, in certain defined cases, public disclosure of the results of the placement of shares. See "Registration of Placement Report."

Charter Capital Decrease; Share Buy-backs

The Joint Stock Companies Law does not allow a company to reduce its charter capital below the minimum charter capital required by law, which is 100,000 rubles for an open joint stock company. Our charter requires that any decision to reduce our charter capital, whether through a repurchase and cancellation of shares or a reduction of the nominal value of the shares, be made by a majority vote of a shareholders' meeting. Additionally, within 30 days of a decision to reduce our charter capital, we must issue written notice to our creditors and publish this decision. Our creditors would then have the right to demand, within 30 days of publication or receipt of our notice, early termination or discharge of relevant obligations by us, as well as compensation for damages.

The Joint Stock Companies Law allows our shareholders or our board of directors to authorize the repurchase of up to 10% of our shares in exchange for cash. The repurchased shares must be resold at market price within one year of their repurchase or, failing that, the shareholders must decide to cancel such shares and decrease the charter capital. The shares repurchased pursuant to a decision of our shareholders' meeting to decrease the overall number of shares are cancelled at their redemption. Russian legislation does not permit the voting of repurchased shares.

The Joint Stock Companies Law allows us to repurchase our shares only if, at the time of repurchase:

- our charter capital is paid in full;
- we are not and would not become, as a result of the repurchase, insolvent;
- the value of our net assets at the time of repurchase of our shares is not less (and would not become less, as a result of the proposed repurchase) than the sum of our charter capital, the reserve fund and the difference between the liquidation value and par value of our issued and outstanding preferred shares; and
- we have repurchased all shares from shareholders having the right to demand repurchase of their shares in accordance with the Russian law, as described immediately below.

Our subsidiaries are not restricted from purchasing our shares, and our subsidiaries can vote these shares.

The Joint Stock Companies Law and our charter provide that our shareholders may demand repurchase of all or some of their shares so long as the shareholder demanding repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- reorganization;
- conclusion of a major transaction, as defined under Russian law; or
- amendment of our charter or approval of a restated version of our charter in a manner which restricts shareholder's rights.

We may spend up to 10% of our net assets calculated under Russian accounting standards on the date of the adoption of the decision which gives rise to a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10% of our net assets, we will repurchase shares from each such shareholder on a pro-rata basis.

Registration and Transfer of Shares

Russian legislation requires that a joint stock company maintain a register of its shareholders. Ownership of our registered shares is evidenced solely by entries made in such register. Any of our shareholders may obtain an extract from our register certifying the number of shares that such shareholder holds. OJSC Reestr, located at 20 Bolshoi Balkansky pereulok, Building 1, Moscow 129090, Russian Federation, maintains our shareholder register.

The purchase, sale or other transfer of shares is accomplished through the registration of the transfer in the shareholder register, or the registration of the transfer with a depositary if shares are held by a depositary. The registrar or depositary may not require any documents in addition to those required by Russian legislation in order to transfer shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is not allowed, provided that the transfer documents comply with Russian law requirements, and such refusals may be challenged in court.

Reserve Fund

Russian legislation requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and repurchase the company's shares in cases when other funds are not available. Our charter provides for a reserve fund of 5% of our charter capital, funded through mandatory annual transfers of at least 5% of our net profits until the reserve fund has reached the 5% requirement.

Disclosure of Information

Russian securities regulations require us to make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information about us, our shareholders and depositary, the structure of our management bodies, the members of the board of directors, our branches and representative offices, our shares, bank accounts and auditors, important developments during the reporting quarter and other information about our financial and business activity and disclosing the same on our website on the same basis;
- filing with the FSFM and publishing any information concerning material facts and changes in our financial and business activity, including our reorganization, certain changes in the amount of our assets, decisions on share issuances, certain changes in ownership and shareholding, as well as shareholder and board of directors' resolutions;
- disclosing information on various stages of share placement, issuance and registration through publication of certain data as required by the securities regulations;
- disclosing our charter and internal corporate governance documents on our website;
- disclosing our annual report and annual financial statements prepared in accordance with Russian accounting standards;
- filing with the FSFM on a quarterly basis a list of our affiliated persons and disclosing the same on our website, on the same basis; and
- other information as required by applicable Russian securities legislation.

General Meetings of Shareholders

Procedure

The powers of a shareholders' meeting are set forth in the Joint Stock Companies Law and in our charter. A shareholders' meeting may not decide on issues that are not included in the list of its competence by the Joint Stock Companies Law. Among the issues which the shareholders have the power to decide are:

- charter amendments;
- reorganization or liquidation;
- determination of the number, nominal value and category (type) of authorized shares and rights granted by such shares;
- changes in the company's charter capital;
- determination of the number, appointment and early removal of the members of the company's board of directors, review commission and counting commission;
- payment of compensation and fees to the members of the board of directors and the review commission;
- appointment of the company's independent auditor;
- determination of the procedure for conducting the general shareholders' meetings;
- approval of the annual report and annual financial statements, including the balance sheet and the profit and loss statement;
- approval of certain interested party transactions and major transactions;
- distribution of profits and losses, including approval of dividends;
- decision on our participation in holding companies, commercial or industrial groups, or other associations of commercial entities;

- approval of certain internal documents;
- redemption by the company of issued shares in cases provided for by the Joint Stock Companies Law;
- split and consolidation of shares; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Voting at a shareholders' meeting is generally based on the principle of one vote per ordinary share, with the exception of the election of the board of directors, which is done through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a shareholders' meeting. However, Russian law requires a three-quarters majority vote of the voting shares present at a shareholders' meeting to approve the following:

- charter amendments;
- reorganization or liquidation;
- major transactions involving assets in excess of 50% of the balance sheet value of the company's assets;
- determination of the number, nominal value and category (type) of authorized shares and the rights granted by such shares;
- repurchase by the company of its issued shares;
- any issuance of shares or securities convertible into shares by closed subscription; or
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting 25% or more of the number of issued and outstanding ordinary shares.

The quorum requirement for our shareholders' meeting is met if shareholders (or their representatives) accounting for more than 50% of the issued voting shares are present. If the 50% quorum requirement is not met, another shareholders' meeting with the same agenda may (and, in the case of an annual shareholders' meeting, must) be scheduled and the quorum requirement is satisfied if shareholders (or their representatives) accounting for at least 30% of the issued voting shares are present at that meeting.

The annual shareholders' meeting must be convened by the board of directors between March 1 and June 30 of each year, and the agenda must include the following items:

- election of members of the board of directors;
- approval of the annual report and annual financial statements, including the balance sheet and profit and loss statement;
- approval of distribution of profits and losses, including approval of annual dividends, if any;
- appointment of an independent auditor; and
- appointment of the members of the review commission.

Extraordinary shareholders' meetings may be called by the board of directors on its own initiative, or at the request of the review commission, the independent auditor or a shareholder or group of shareholders owning in the aggregate at least 10% of the issued voting shares as of the date of the request.

A general meeting of shareholders may be held in the form of a meeting or by absentee ballot. The form of a meeting contemplates the adoption of resolutions by the general meeting of shareholders through the attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on issues of the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may complete and mail the ballot back to the company without personally attending the meeting. A general meeting of the shareholders by absentee ballot contemplates the determination of shareholders' opinions regarding issues on the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting by absentee ballot:

- election of the members of the board of directors;

- election of the review commission;
- approval of a company's independent auditor; and
- approval of the annual report, the annual financial statements, including balance sheet, profit and loss statement, and any distributions of profits and losses, including approval of annual dividends, if any.

Notice and Participation

All shareholders entitled to participate in our general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in the form of a meeting or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors or to elect the board of directors of the newly established company in connection with the company's reorganization in the form of a merger, spin-off or division, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that were set out in the agenda to shareholders may be voted upon at a general shareholders' meeting.

The list of persons entitled to participate in a general shareholders' meeting is to be compiled on the basis of data in our shareholder register on the date established by the board of directors, which date may neither be earlier than the date of adoption of the board resolution to hold a general shareholders' meeting nor more than 50 days before the date of the meeting (or, in the case of an extraordinary shareholders' meeting to elect the board of directors, not more than 65 days before the date of the meeting).

The right to participate in a general meeting of shareholders may be exercised by a shareholder as follows:

- by personally participating in the discussion of agenda items and voting thereon;
- by sending an authorized representative to participate in the discussion of agenda items and to vote thereon;
- by absentee ballot; or
- by delegating the right to fill out the absentee ballot to an authorized representative.

Board of Directors

Our charter provides that our entire board of directors is up for election at each annual general shareholders' meeting and that our board of directors is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to our board of directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of a shareholders' meeting.

The Joint Stock Companies Law requires at least a five-member board of directors for all joint stock companies, at least a seven-member board of directors for a joint stock company with more than 1,000 holders of voting shares, and at least a nine-member board of directors for a joint stock company with more than 10,000 holders of voting shares. Only natural persons (as opposed to legal entities) are entitled to sit on the board. Members of the board of directors are not required to be shareholders of the company. The actual number of directors is determined by the company's charter, which provides that the number of board members shall be determined by a decision of a shareholders' meeting. Our board of directors currently consists of nine members.

The Joint Stock Companies Law generally prohibits the board of directors from acting on issues that fall within the exclusive competence of the general shareholders' meeting. Our board of directors has the power to perform the general management of the company, and to decide, among others, the following issues:

- determining our business priorities;
- approval of our annual plans, including financial plans;

- convening annual and extraordinary shareholders' meetings, except in certain circumstances specified in the Joint Stock Companies Law;
- approval of the agenda of the shareholders' meeting and determination of the record date for shareholders entitled to participate in a shareholders' meeting;
- placement of our bonds and other securities, in cases specified in the Joint Stock Companies Law;
- increasing our charter capital in certain circumstance specified in our charter;
- introducing certain changes to our charter;
- determination of the price of our property and of our securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of our shares, bonds and other securities in certain cases provided for by the Joint Stock Companies Law;
- appointment and early removal of our president and the members of a collective executive body;
- recommendation to our shareholders' meeting on the amount of a dividend and the payment procedure;
- recommendation to our shareholders' meeting on the amount of remuneration and compensation to be paid to the members of our review commission;
- approval of the fees payable for the services of an independent auditor;
- determination of the fees payable for the services of an independent auditor;
- the use of our reserve fund and other funds;
- the creation and liquidation of branches and representative offices;
- approval of our internal documents, except for those documents whose approval fall within the competence of our shareholders or president;
- approval of major and interested party transactions in the cases provided for by the Joint Stock Companies Law;
- approval of our share registrar and the terms of the agreement with it;
- approval of decisions on share issuances and of the prospectuses relating to such share issuances, as well as of reports on the results of such share issuances;
- appointment and termination of the powers of our corporate secretary;
- creation of committees, commissions and other internal structural bodies under our board of directors; and
- other issues, as provided for by the Joint Stock Companies Law and our charter.

Our charter generally requires a majority vote of the directors present for an action to pass, with the exception of certain issues and actions for which Russian legislation requires a unanimous vote or a majority vote of the disinterested and independent directors, as described herein. A board meeting is considered duly assembled and legally competent to act when at least half of the number of elected directors are present.

Interested Party Transactions

Under the Joint Stock Companies Law, certain transactions defined as "interested party transactions" require approval by disinterested directors or shareholders of the company. "Interested party transactions" include transactions involving a member of the board of directors or member of any executive body of the company (including the company's chief executive officer and/or the company's managing organization), any person that owns, together with any affiliates, at least 20% of a company's issued voting stock or any person who is able to direct the actions of the company, if that person, and/or that person's spouse, parents, children, adoptive parents or children, brothers or sisters or affiliates, is/are:

- a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary;
- the owner of at least 20% of the issued shares of a legal entity that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary; or
- a member of the board of directors or a member of any management body of a company that is a party to, or beneficiary of, a transaction with the company, whether directly or as a representative or intermediary, or a member of the board of directors or of any management body of a management organization of such a company.

The Joint Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders be approved by a majority vote of the independent directors of the company who are not interested in the transaction. For purposes of this rule, an "independent director" is a person who is not, and within the year preceding the decision to approve the transaction was not, the general director, a member of any executive body or an affiliate of the company, or a member of the board of directors or of any management body of the company's management organization. Additionally, such person's spouse, parents, children, adoptive parents or children, brothers or sisters may not, and within the year preceding the decision to approve the transaction may not, occupy positions in the executive bodies of the company or positions on the board of directors or of any management body of the company's management organization. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of shareholders who are not interested in the transaction is required if:

- the value of such transaction or a number of interrelated transactions is 2% or more of the balance sheet value of the company's assets determined under Russian accounting standards;
- the transaction or a number of interrelated transactions involves the issuance, by subscription, of voting shares or securities convertible into voting shares, or secondary market sale of such securities, in an amount exceeding 2% of the company's issued voting stock;
- the number of directors who are not interested in the transaction is not sufficient to constitute a quorum; or
- all the members of the board of directors of the company are interested parties, or none of them is an independent director.

Approval by a majority of shareholders who are not interested in the transaction may not be required, until the next annual shareholders' meeting, for an interested party transaction if such transaction is substantially similar to transactions concluded by the company and the interested party in the ordinary course of business before such party became an interested party with respect to the transaction.

The approval of interested party transactions is not required in the following instances:

- the company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- all shareholders of the company are deemed interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares of the company;
- the transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- the transactions arise from merging with another company; or
- the transactions that are mandatory for a company pursuant to Russian law and must be concluded on the basis of fixed prices and tariffs adopted by a competent state body.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a number of interrelated transactions, involving the acquisition or disposal, or a possibility of disposal (whether directly or indirectly), of property having a value of 25% or more of the balance sheet value of the assets of a company as determined under Russian accounting standards, with the exception of transactions conducted in the ordinary course of business or transactions involving the placement of ordinary shares or securities convertible into ordinary shares. Major transactions involving assets having a value ranging from 25% to 50% of the balance sheet value of the assets of a company require unanimous approval by all members of the board of directors or, failing to receive such approval, a simple majority votes of a shareholders' meeting. Major transactions involving assets having a value in excess of 50% of the balance sheet value of the assets of a company require a three-quarters majority vote of a shareholders' meeting.

Change in Control

Anti-takeover Protection

Russian legislation requires the following:

- A person intending to acquire more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates), will be entitled to make a public tender offer to other holders of such shares or securities convertible into such shares.
- A person that has acquired more than 30% of an open joint stock company's ordinary shares and voting preferred shares (including, for such purposes, the shares already owned by such person and its affiliates) will, except in certain limited circumstances, be required to make, within 35 days of acquiring such shares, a public tender offer for other shares of the same class and for securities convertible into such shares, at the price which is not less than the price determined based on the weighted average market price of the shares over the six month period before the filing of the offer with the FSFM as described below, if the shares are publicly traded, or on the price supplied by an independent appraiser if the shares have no or insufficient trading history. The public tender offer price may not be less than the highest price at which the offeror or its affiliated persons purchased or undertook to purchase the relevant securities over the six month period before the offer was sent to the company. From the moment of acquisition of more than 30% (or 50% and 75% in cases referred to in the next sentence) of the shares until the date the offer was sent to the company, the person making the offer and its affiliates will be able to register for quorum purposes and vote only 30% of the company's ordinary shares and voting preferred shares (regardless of the size of their actual holdings). These rules also apply to acquisitions resulting in a person or a group of persons owning more than 50% and 75% of a company's issued ordinary shares and voting preferred shares.
- A person that as a result of an offer described in either of the preceding paragraphs becomes (individually or with its affiliates) the owner of more than 95% of the company's ordinary shares and voting preferred shares, must buy out the remaining shares of the company as well as other securities convertible into such shares upon request of the holders of such shares or other securities, and may require such holders to sell such shares and other securities, at the price determined in the manner described in the preceding paragraph but not less than the highest price of the preceding acquisitions by the offeror.
- An offer of the kind described in either of the preceding three paragraphs must be accompanied by a bank guarantee of payment. If the company is publicly traded, prior notice of the offers must be filed with the FSFM; otherwise, such offers must be filed with the FSFM no later than the date of the offer. The FSFM may require revisions to be made to the terms of the offer (including the price) in order to bring them into compliance with the rules.
- Once such an offer has been made, competing offers for the same securities can be made by third parties and, in certain circumstances, acceptance of the initial offer may be withdrawn by the security holders who choose to accept such competing offer. From the making of a public tender offer until 20 days after its expiry (which period may in certain cases exceed 100 days) the company's shareholders meeting will have the sole power to make decisions on charter

capital increase, issuance of securities, approval of major, interested party and certain other transactions, and on certain other significant matters.

The above rules may be supplemented through FSFM rulemaking, which may result in a wider, narrower or more specific interpretation of these rules.

See also "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Because the Depositary may be considered the owner of the shares underlying the GDRs, these shares may be arrested or seized in legal proceedings in Russia against the Depositary."

Approval of the Russian Federal Anti-Monopoly Service

Pursuant to the Federal Law on Competition acquisitions of voting capital stock of a joint stock company which involves companies with a combined value of the assets or combined annual revenues under Russian accounting standards exceeding a certain threshold or companies registered as having more than a 35% share of a certain commodity market, and which would result in a shareholder (or a group of affiliated shareholders) holding more than 25%, 50% or 75% of the voting capital stock of such company, or in a transfer between such companies of assets or rights to assets, the value of which exceeds a certain amount, must be approved in advance by FAS.

See also "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Because the Depositary may be considered the owner of the shares underlying the GDRs, these shares may be arrested or seized in legal proceedings in Russia against the Depositary."

Disclosure of Ownership

Under Russian law, a holder of our ordinary shares will be required to publicly disclose an acquisition of 5% or more of the issued ordinary shares of the company, as well any change in the amount of ordinary shares held by such holder, if as a result of such change the percentage of ordinary shares held by the holder becomes greater or lesser than 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the issued ordinary shares of the company.

Exchange Controls

The Federal Law on Currency Regulation and Currency Control which came into effect on June 18, 2004, sets forth certain restrictions on settlements between residents of Russia with respect to operations involving foreign securities (including GDRs), including requirements for settlement in Russian rubles.

Repatriation of Export Proceeds

Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions concerning, in particular, certain types of secured financing) within seven days of the date on which they were received (also with a limited number of exemptions).

Restrictions on the Remittance of Dividends, Interest or Other Payments to Non-residents

The Federal Law on Foreign Investments in the Russian Federation of July 9, 1999, specifically guarantees foreign investors the right to repatriate their earnings from Russian investments. However, the evolving Russian exchange control regime may materially affect your ability to do so.

Currently, ruble dividends on ordinary shares may be converted into U.S. dollars without restriction. However, the ability to convert rubles into U.S. dollars is also subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain.

Notification of Foreign Ownership

Foreign persons registered as individual entrepreneurs in Russia who acquire shares in a Russian joint stock company and foreign companies, regardless of whether they are registered with the Russian tax authorities, that acquire shares in a Russian joint stock company need to notify the Russian tax authorities within one month following such acquisition. However, the procedure of notifying the Russian tax authorities by foreign companies that are not registered with such tax authorities at the time of their share acquisitions is still unclear.

DESCRIPTION OF CERTAIN INDEBTEDNESS

7.875% Notes due 2009

General

On March 2, 2006, Sitronics Finance S.A., our wholly-owned Luxembourg subsidiary, issued $200,000,000 million aggregate principal amount of 7.875% notes due 2009 (the "Notes"). The Notes bear interest at a rate of 7.875% per annum. Interest on the Notes is payable semi-annually in arrears on March 2 and September 2, commencing on September 2, 2006. The Notes mature on March 2, 2009.

All payments on the Notes by Sitronics Finance were initially guaranteed, on an unconditional basis, by Sitronics pursuant to a Trust Deed we entered with Deutsche Trustee Company Limited, acting as trustee. On June 26, 2006, our subsidiaries Strom Telecom and Sitronics Consumer Electronics entered into a Supplemental Trust Deed whereby they unconditionally guaranteed Sitronics Finance's obligations under the Notes jointly and severally with us. On December 22, 2006, Intracom Telecom entered into a Supplemental Trust Deed whereby it unconditionally guaranteed Sitronics Finance's obligations under the Notes jointly and severally with us. The Notes are not secured.

The following a summary of the material terms of the Terms and Conditions of the Notes, which is included as an exhibit to the Trust Deed.

Optional Redemption

At any time on or prior to March 2, 2009, we may redeem up to 35% of the aggregate principal amount of the Notes with the net proceeds from one or more equity offerings at a redemption price equal to 107.875% of the principal amount of such Notes plus accrued and unpaid interest thereon. In addition, we may redeem all or part of the Notes at any time upon at least 30 days' (but not more than 60 days') prior notice at a certain make-whole premium plus accrued interest.

Change of Control

Upon certain change of control events, each Noteholder may require us to redeem the principal amount of its Notes together with accrued interest to the date fixed for redemption.

Negative Covenants

The Trust Deed governing the Notes contains covenants that, among other things, limit our ability to:

- incur additional debt;
- create certain liens;
- enter into certain sale and lease-back transactions;
- enter into transactions with affiliates, including intercompany loans, that would be less favorable than arm's-length transactions; and
- merge, consolidate or dispose of assets.

Events of Default

The Trust Deed governing the Notes contains certain events of default, in each case, with certain grace periods and thresholds, including, but not limited to:

- non-payment of principal or interest;
- breach of other obligations under the Notes;
- cross-acceleration;
- unsatisfied judgments;
- invalidity or unenforceability of our obligations under the Trust Deed or guarantee agreements entered into with respect of the Notes; or
- certain liquidation, insolvency and bankruptcy events.

Upon the occurrence of an event of default under the Trust Deed, the trustee at its own discretion may, or if so requested in writing by the holders of not less than one-quarter of the principal amount of the Notes then outstanding, declare the Notes due and payable at their principal amount together with accrued interest.

Syndicated Credit Facility

General

As part of Intracom Telecom's spin-off from Intracom Holdings S.A. in 2005, Intracom Holdings was replaced by Intracom Telecom as the borrower under a credit facility originally entered into by Intracom Holdings in 2002 with a syndicate of Greek banks. The credit facility is currently available in an aggregate amount equivalent to €118 million in U.S. dollars.

Interest Rate and Interest Period

Funds drawn under the credit facility bear interest at a rate of LIBOR+1.5%. Accrued interest is paid on the last day of each 3-month interest period. Intracom Telecom is a party to a swap arrangement with respect to this facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Qualitative and Quantative Disclosures about Market Risk—Foreign Currency Risk."

Repayment

The original date for the repayment of funds in full was January 23, 2006, subject to maximum of two extensions for a period of one year each. Following an extension request, the maturity date under the credit facility was extended and is currently set for January 23, 2007 and we are in the process of finalizing another one year extension.

Guarantee

Our obligations under the loan facility are guaranteed by Intracom Holdings. The facility is unsecured.

Covenants and Other Matters

The credit facility requires us and Intracom Holdings to comply with certain general, information and financial covenants, including a maximum aggregate indebtedness of €350 million and a minimum tangible net worth, maximum gearing ratio and minimum interest cover ratio. The credit facility also includes certain negative covenants restricting or limiting our ability to, among other things:

- grant a security interest in our assets, subject to certain exceptions;
- dispose of any assets unless such disposal is (1) of stock-in-trade made in the ordinary course of trading, (2) of assets in exchange for other comparable or superior assets or (3) of other assets which, in aggregate, during the term of the facility do not exceed 25% of the company's assets; and
- make acquisitions or investments, unless in the ordinary course of trade or if the total consideration paid in connection with all acquisitions since December 2004 does not exceed €80 million.

Our credit facility also contains certain representations and warranties, affirmative covenants, notice provisions and events of default, including defaults on other debt.

New Credit Facility

As of the date of this prospectus, we were in the process of negotiating a new credit facility agreement with the syndicate which would replace the credit facility agreement described above. We cannot guarantee that the terms of this agreement will be the same those of the existing credit facility. We also expect that Intracom Holdings will remain the guarantor of the credit facility under the terms of the new agreement and that Sitronics will be added as a guarantor.

DESCRIPTION OF THE GLOBAL DEPOSITARY RECEIPTS

Deutsche Bank Trust Company Americas has agreed to act as the depositary for the GDRs. The Depositary's principal New York offices are located at 60 Wall Street, New York, New York 10005, United States and its principal London offices are located at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom. In this summary we use the term "GDRs" to refer to the Rule 144A GDRs and to the Regulation S GDRs. GDRs are represented by certificates that are ordinarily known as "Global Depositary Receipt Certificates" or "GDR Certificates." The GDRs we are selling in the United States are referred to and will be issued as Rule 144A GDRs and the GDRs we are selling outside the United States are referred to and will be issued as the Regulation S GDRs. GDRs represent ownership interests in securities, cash or other property on deposit with the Depositary.

The Depositary has appointed Deutsche Bank Ltd. as the custodian (the "Custodian") for the safekeeping of the deposited securities, cash or other property on deposit. The Custodian's principal office is at 4 Schepkina Street, Moscow 129090, Russian Federation.

There are two separate deposit agreements, one for the Rule 144A GDRs (the "Rule 144A Deposit Agreement") and one for the Regulation S GDRs (the "Regulation S Deposit Agreement") and together with the Rule 144A Deposit Agreement, the "Deposit Agreements"), each of which is governed by New York law. Copies of the Deposit Agreements are available for inspection by any holder of the GDRs at the principal offices of the Depositary during business hours. This is a summary description of the material terms of the GDRs and of your material rights as an owner of the GDRs. Please remember that summaries are provided for informational purposes only, by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDRs will be determined by reference to the terms of the applicable Deposit Agreement and not by this summary.

One GDR represents the right to receive 50 shares on deposit with the Custodian. Each GDR will also represent the right to receive cash or any other property received by the Depositary or the Custodian on behalf of the owner of the GDR but that has not been distributed to the owners of GDRs because of legal restrictions or practical considerations.

If you become an owner of GDRs, you will become a party to the applicable Deposit Agreement and therefore will be bound by its terms and by the terms of the GDR Certificate that represents your GDRs. The applicable Deposit Agreement specifies our rights and obligations as well as your rights and obligations as owner of GDRs and those of the Depositary. As a GDR owner you appoint the Depositary as your attorney-in-fact, with full power to delegate, to act on your behalf and to take any and all actions contemplated in the applicable Deposit Agreement, to adopt any and all procedures necessary to comply with applicable laws and to take such action as the Depositary in its sole discretion may deem necessary or appropriate to carry out the purposes of the applicable Deposit Agreement.

Presently, you may hold your GDRs only through a brokerage or safekeeping account. As such, you must rely on the procedures of your broker or bank to assert your rights as GDR owner. Please consult with your broker or bank to determine what those procedures are. When we refer to "you," we assume the reader owns GDRs and will own GDRs at the relevant time. When we refer to a "holder" we assume the person owns GDRs and such person's agent (*i.e.*, broker, custodian, bank or trust company) is the holder of the applicable GDR.

No temporary Master GDR Certificates or other temporary documents of title have been or will be issued in connection with this offering.

Registration of Placement Report

Prior to the receipt by the Depositary of written notice from us that the placement report with respect to the newly issued shares being offered by us has been registered, all GDRs will be issued on a provisional basis and GDR holders will not be entitled to instruct the Depositary to exercise any voting rights as a shareholder, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. GDR holders may not withdraw the shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitation on withdrawal and voting of the underlying ordinary shares will not prohibit trading in the GDRs.

See "Registration of Placement Report" and "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders."

Distinctions Between Rule 144A GDRs and Regulation S GDRs

The Rule 144A GDRs and the Regulation S GDRs are similar in many ways but are different primarily on account of the requirements of the U.S. securities laws. The Rule 144A GDRs are "restricted securities" under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDRs are not *per se* "restricted securities" under the U.S. securities laws, but we have imposed certain limitations on the issuance of Regulation S GDRs in an effort to prevent the transfer of Regulation S GDRs in violation of the U.S. securities laws.

The differences between the Regulation S GDRs and the Rule 144A GDRs and the restrictions imposed on the Rule 144A GDRs and the Regulation S GDRs include the following:

- The restrictions on the transfers, deposits and withdrawals of the shares represented by the GDRs. See "—Transfer Restrictions."
- The eligibility for book-entry transfer. See "—Settlement and Safekeeping."
- Special restrictions on deposits and withdrawals apply to our affiliates. See "—Ownership of GDRs by Our Affiliates" below.

These distinctions and the requirements of the U.S. securities laws may require us and the Depositary to treat the Regulation S GDRs and the Rule 144A GDRs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDRs will receive the same entitlements as holders of Regulation S GDRs and vice versa.

Settlement and Safekeeping

Rule 144A GDRs

The Depositary will make arrangements with DTC to act as securities depository for the Rule 144A GDRs. All Rule 144A GDRs issued in the offering will be registered in the name of Cede & Co. (DTC's nominee). One Master Rule 144A GDR Certificate will represent all Rule 144A GDRs that will be issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDRs are to be accomplished by entries made on the books of DTC and participants in DTC acting on behalf of Rule 144A GDR owners. Owners of Rule 144A GDRs will not receive certificates representing their ownership interests in the Rule 144A GDRs, except in the event that a successor securities depository cannot be appointed.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDRs at any time by giving reasonable notice to the Depositary. Under such circumstances and in the event a successor securities depository cannot be appointed, individual Rule 144A GDR Certificates representing the applicable number of Rule 144A GDRs held by each owner of Rule 144A GDRs will be printed and delivered to the relevant Rule 144A GDR owners.

Regulation S GDRs

The Depositary will make arrangements with Euroclear and Clearstream to act as securities depositories for the Regulation S GDRs. All Regulation S GDRs issued in the offering will be registered in the name of a nominee of Deutsche Bank AG, London Branch, the common depositary for Euroclear and Clearstream. One Master Regulation S GDR Certificate will represent all Regulation S GDRs issued to and registered in the name of that nominee. Euroclear and Clearstream will hold the Regulation S GDRs on behalf of their participants (any such participant of Euroclear or Clearstream, a "Participant"), and transfers will be permitted only within Euroclear and Clearstream in accordance with the rules and operating procedures of the relevant system. Transfers of ownership interests in Regulation S GDRs are to be accomplished by entries made on the books of Euroclear and Clearstream and of participants in Euroclear and Clearstream, acting in each case on behalf of Regulation S GDR owners.

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation S GDRs, we and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available separate Regulation S GDR Certificates in physical certificated form. Owners of Regulation S GDRs will not otherwise receive physical certificates representing their ownership interest in the Regulation S GDRs.

Transfer Restrictions

The GDRs may be reoffered, resold, pledged or otherwise transferred only in compliance with the U.S. securities laws and are subject to the following restrictions:

Restrictions upon the Transfer of GDRs

Rule 144A GDRs	Regulation S GDRs
The Rule 144A GDRs may be reoffered, resold, pledged or otherwise transferred only: (1) outside the United States in accordance with Regulation S; or (2) to a QIB in a transaction meeting the requirements of Rule 144A; or (3) pursuant to Rule 144 under the Securities Act, if available; or (4) pursuant to an effective registration statement under the Securities Act.	None.

Please also see "—Ownership of GDRs by Our Affiliates" below.

Restrictions upon Deposit of Shares

Rule 144A GDRs	Regulation S GDRs
Shares will be accepted for deposit under the Rule 144A Deposit Agreement only if delivered by, or on behalf of, a person that is: (1) not Sitronics or an affiliate of Sitronics or a person acting on behalf of Sitronics or an affiliate of Sitronics; and (2) a QIB or a person outside the United States that is not a U.S. person (as defined in Regulation S).	Shares will be accepted for deposit under the Regulation S Deposit Agreement only if delivered by, or on behalf of, a person that is: (1) not Sitronics or an affiliate of Sitronics or a person acting on behalf of Sitronics or an affiliate of Sitronics; and (2) not in the business of buying or selling securities, or if such person is in the business of buying or selling securities, such person did not acquire the shares to be deposited from Sitronics or an affiliate of Sitronics in the initial distribution of Regulation S GDRs, shares and Rule 144A GDRs; and

Rule 144A GDRs	Regulation S GDRs
	(3) is a person outside the United States that is not a U.S. person (as defined in Regulation S). Shares withdrawn from deposit under the Rule 144A Deposit Agreement will not be accepted for deposit pursuant to the Regulation S Deposit Agreement unless such shares are not and may not be deemed to be "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

Please also see "—Ownership of GDRs by Our Affiliates" below.

Restrictions upon Withdrawal of Shares

Rule 144A GDRs	Regulation S GDRs
So long as the placement report has been registered with the FSFM as described under "—Registration of Placement Report," shares may be withdrawn from the Rule 144A Deposit Agreement only by: (1) a person other than a U.S. person (as defined in Regulation S) outside the United States who will be the beneficial owner of the shares upon withdrawal; or (2) a QIB who (a) has sold the Rule 144A GDRs to another QIB in a transaction meeting the requirements of Rule 144A, or to a person other than a U.S. person (as defined in Regulation S) outside the United States in accordance with Regulation S, or (b) will be the beneficial owner of the shares and agrees to observe the transfer restrictions applicable to Rule 144A GDRs in respect of the shares so withdrawn.	So long as the placement report has been registered with the FSFM as described under "—Registration of Placement Report," shares may be withdrawn from the Regulation S Deposit Agreement by the holders of Regulation S GDRs.

Please also see "—Ownership of GDRs by Our Affiliates" below.

General Restrictions

Restrictions on Transfer

The Deposit Agreements permit us to restrict transfers of the shares where such transfer might result in ownership of shares exceeding the limits applicable to the shares under applicable law or our charter. We may also restrict transfers of the GDRs where such transfer may result in the total number of shares represented by the GDRs owned by a single holder or beneficial owner to exceed any such limits. We may, in our sole discretion, but subject to applicable law, instruct the Depositary to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits set forth in the preceding sentence, including but not limited to, the imposition of restrictions on the transfer of GDRs, the removal or limitation of voting rights or the mandatory sale or disposition on behalf of a holder or beneficial owner of the shares represented by the GDRs held by such holder or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and our charter. The Depositary shall have no liability for actions taken in accordance with such instructions.

The registration of any transfer of GDR Certificates in particular instances may be refused, or the registration of transfers generally may be suspended, during any period when the transfer books of the Depositary, us, the registrar or the Russian share registrar are closed, or if any such action is deemed necessary or advisable by us or the Depositary, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or shares are listed, or under any provision of the Deposit Agreements or provisions of, or governing, the shares, or any meeting of our shareholders or for any other reason.

The Depositary may close the transfer books with respect to GDR Certificates, at any time or from time to time, when deemed necessary or advisable by it in good faith in connection with the performance of its duties hereunder, or at our reasonable request.

Restrictions on Deposits

The Depositary will refuse to accept shares for deposit whenever it is notified in writing by us that such deposit would result in any violation of applicable laws, including ownership restrictions under Russian laws. The Depositary will also refuse to accept certain shares for deposit under the Rule 144A Deposit Agreement if notified in writing that the shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter dealer quotation system, unless accompanied by evidence satisfactory to the Depositary that any shares presented for deposit are eligible for resale pursuant to Rule 144A under the Securities Act. The Depositary may also, upon receipt of notice from us, limit at any time the number of shares accepted for deposit under the terms of the Deposit Agreements so as to eliminate or minimize any requirements that may be imposed on us, the Depositary or the GDR facilities existing under the terms of the Deposit Agreements under Russian law.

In addition, whenever the Depositary believes that the shares deposited with it against issuance of GDRs (together with any other securities deposited with it against the issuance of depositary receipts and any other securities held by us and our affiliates for our or their proprietary accounts or as to which we or they exercise voting and investment power) represent (or, upon accepting any additional shares for deposit, would represent) such percentage as exceeds any threshold or limit established by any applicable law, directive, regulation or permit, or satisfies any condition for making any filing, application, notification or registration or obtaining any approval, license or permit under any applicable law, directive or regulation, or taking any other action, the Depositary may (1) close its books to deposits of additional shares in order to prevent such thresholds or limits being exceeded or conditions being satisfied or (2) take such steps as are, in its opinion, necessary or desirable to remedy the consequences of such thresholds or limits being exceeded or conditions being satisfied and to comply with any such law, directive or regulation, including, without limitation, causing pro rata cancellation of GDRs and withdrawal of underlying ordinary shares from the depositary receipt program to the extent necessary or desirable to so comply.

The Depositary will have the right to close its books to the issuance of GDRs without prior consultation with us, if at any time the Depositary believes that (1) the shares deposited with it against issuance of GDRs together with any other securities of ours which shall have been deposited with the Depositary against issuance of depositary receipts, represent (or, upon accepting any additional shares for deposit, would represent) such percentage as shall at the relevant time require a shareholder of a Russian open joint stock company to make a mandatory tender offer; or (2) the shares deposited with it against issuance of GDRs together with any other securities of ours which shall have been deposited with the Depositary against issuance of depositary receipts, represent (or, upon accepting any additional shares for deposit, would represent) such percentage as shall at the relevant time require an approval from FAS, and no necessary approval from FAS (or an exemption, exemptive interpretation or waiver from FAS of a requirement to obtain such an approval) has been obtained. See "Description of Share Capital and Certain Requirements of Russian Legislation—Change in Control—Approval of the Russian Federal Anti-Monopoly Service."

The Depositary may also close its books to the deposit of shares if at any time the aggregate number of GDRs in issue would, if additional GDRs were to be issued against the deposit of additional shares, exceed the number of GDRs for which a listing and admission to trading has been obtained, and may keep its books closed to the deposit of shares unless and until we shall have produced a prospectus in accordance with the Prospectus Rules under the UK Financial Services & Markets Act 2000, as amended, and obtained a block listing on the Official List and admission to trading on the Regulated Market of the London Stock Exchange of such number of additional GDRs as the Depositary may, in its reasonable discretion, request after consultation with us.

In considering whether any threshold has been reached or exceeded, the Depositary may, in addition to shares deposited with it against the issuance of GDRs and our other securities deposited with it against issuance of other depositary receipts, take into consideration shares or our other securities held by it and its affiliates for its or their proprietary accounts or as to which it or they exercise voting or investment power.

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the Custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDRs held as of a specified GDR record date, which the Depositary will use reasonable efforts to establish as close as possible to the record date set by us for the shares.

Distributions of Cash

Whenever we make a cash distribution in respect of securities on deposit with the Custodian, we will deposit the funds with the Custodian. Upon receipt of confirmation from the Custodian of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, if in the reasonable judgment of the Depositary it is practicable and lawful. See "—Foreign Currency Conversion" below for actions the Depositary is entitled to take if conversion, transfer and distribution cannot be so made by the Depositary.

The amounts distributed to holders will be net of the fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of the securities on deposit.

Distributions of Shares

Whenever we make a free distribution of shares in respect of the shares on deposit with the Custodian, we will deposit the applicable number of shares with the Custodian. Upon receipt of confirmation of such deposit from the Custodian, the Depositary will either distribute to holders additional GDRs representing the shares deposited or modify, to the extent permissible by law, the GDR-to-shares ratio, in which case each GDR you hold will represent rights and interests in the additional shares so deposited. Only whole new GDRs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDRs or the modification of the GDR-to-shares ratio upon a distribution of shares will be made net of the fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new shares so distributed.

No such distribution of new GDRs will be made if it would violate applicable laws (including the U.S. securities laws) or if it is not operationally practicable. If the Depositary does not distribute new GDRs as described above, it may sell the shares received and will distribute the proceeds of the sale as in the case of a distribution of cash. The Depositary will hold and/or distribute any unsold balance of such property in accordance with the provisions of the applicable Deposit Agreement.

Distribution of Rights

Whenever we intend to distribute rights to purchase additional shares, we will give timely prior notice to the Depositary and state whether or not we wish such rights to be made available to you. If we wish such rights to be made available to you, we will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDRs to GDR holders.

The Depositary will establish procedures to distribute rights to purchase additional GDRs to holders and to enable such holders to exercise such rights only if (1) the Depositary has received our request to make such distribution in a timely manner, (2) we have provided all of the documentation contemplated in the Deposit Agreements (such as legal opinions addressing the lawfulness of the transaction) and (3) the Depositary has determined that it is lawful and reasonably practicable to make the rights available to holders of GDRs. You will have to pay fees, charges, expenses, and any taxes and other governmental charges to subscribe for the new GDRs upon the exercise of your rights. The Depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new shares other than in the form of GDRs.

If (1) we do not request that the rights be distributed to you in a timely manner or we request that the rights not be distributed to you, (2) we fail to deliver satisfactory documentation to the Depositary, such as opinions of counsel as to compliance with applicable law, or (3) any rights made available are not exercised and appear to be about to lapse, the Depositary will determine whether it is lawful and reasonably practicable to sell the rights, in a riskless principal capacity, at such place and upon terms (including public and private sale) as it may deem practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

The Depositary shall not be responsible for (1) any failure to determine whether it may be lawful or practicable to make such rights available to holders in general or to you in particular, (2) any foreign exchange exposure or loss incurred in connection with any sale or exercise or (3) the content of any materials forwarded to the holders on behalf of the Company in connection with the rights distribution. There can be no assurance that holders in general or you in particular will be given the opportunity to exercise rights on the same terms and conditions as the holders of shares or to exercise such rights at all.

Elective Distributions

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional shares, we will give timely prior notice thereof to the Depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

The Depositary will make the election available to you only if it has received timely prior notice from us, if it is reasonably practicable and if we have provided all of the documentation contemplated in the applicable Deposit Agreement (such as legal opinions of counsel as to compliance with applicable law). In such case, the Depositary will establish procedures to enable you to elect to receive either cash or additional GDRs, in each case as described in the Deposit Agreements.

If the election is not made available to you, you will, to the extent permitted by law, receive either cash or additional GDRs, depending on what a shareholder in Russia would receive upon failing to make an election, as more fully described in the corresponding Deposit Agreement.

The Depositary is not obligated to make available to holders a method to receive the elective dividend in the form of shares rather than in the form of GDRs. There can be no assurance that holders of GDRs or beneficial interests therein generally, or you in particular, will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the shares.

Other Distributions

Whenever we intend to distribute property other than cash, shares or rights to purchase additional shares, we will timely notify the Depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If the Depositary has received timely prior notice from us, it is reasonably practicable to distribute such property to you and if we have provided all of the documentation contemplated in the Deposit Agreements (such as legal opinions of counsel as to compliance with applicable law), the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, charges, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

If (1) we do not request that the property be distributed to you in a timely manner, or that the property not be distributed to you, (2) we fail to deliver satisfactory documentation (such as legal opinions of counsel as to compliance with applicable law) to the Depositary, or (3) the Depositary determines that all or a portion of the distribution to you is not lawful or reasonably practicable, the

Depositary will sell such property in a public or private sale, at such place and upon terms as it may deem practicable.

The proceeds of any such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems reasonably practicable under the circumstances.

Redemption

Whenever we decide to redeem any of the securities on deposit with the Custodian, we will give timely prior notice to the Depositary. If the Depositary has received timely prior notice from us, determined that such redemption is practicable and received from us all of the documentation contemplated in the Deposit Agreements (such as legal opinions of counsel as to compliance with applicable law), the Depositary will mail notice of the redemption to the holders.

The Depositary will instruct the Custodian to surrender the shares being redeemed against payment of the applicable redemption price. The Depositary will convert the redemption funds received into U.S. dollars upon the terms of the Deposit Agreements and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their GDRs to the Depositary. See "—Foreign Currency Conversion" below for actions the Depositary is entitled to take if conversion, transfer and distribution of funds by the Depositary is not practicable or lawful. You will have to pay fees and charges of, and the expenses incurred by, the Depositary, and any taxes and other governmental charges upon the redemption of your GDRs. If less than all GDRs are being redeemed, the GDRs to be redeemed will be selected by lot or on a *pro rata* basis, as the Depositary may determine.

Changes Affecting Shares

The shares held on deposit for your GDRs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such shares or a recapitalization, reorganization, merger, consolidation or sale of assets affecting us.

If any such change were to occur, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such shares shall, to the extent permitted by law, be treated as new shares under the Deposit Agreements, and the GDR Certificates shall, subject to the terms of the Deposit Agreements and applicable law, evidence the GDRs representing the right to receive such replacement securities. The Depositary in such circumstances may with our approval, and shall if we so request and provide to the Depositary at our expense a reasonably satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations, execute and deliver additional GDR Certificates to you or make appropriate adjustments in its records, or call for the exchange of your existing GDRs for new GDRs. If the Depositary may not lawfully distribute such securities to you, the Depositary may with our approval sell such securities and distribute the net proceeds to you as in the case of a cash distribution, and shall do so if we so request and provide to the Depositary at our expense a reasonably satisfactory opinion of counsel that such action is not in violation of applicable laws or regulations. You will have to pay fees and charges of, and the expenses incurred by, the Depositary, and any taxes and other governmental charges upon the sale of such securities.

The Depositary shall not be responsible for (1) any failure to determine that it is lawful or practicable to make such securities available to holders of GDRs in general or to you in particular, (2) any foreign exchange exposure or loss incurred in connection with such sale or (3) any liability to the purchaser of such securities.

Issuance of GDRs Upon Deposit of Shares

Subject to limitations set forth in the Deposit Agreements and the GDRs, the Depositary may create GDRs on your behalf if you or your broker deposit shares with the Custodian. The Depositary will deliver these GDRs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the shares to the Custodian and you provide the applicable deposit certification. Your ability to deposit shares and receive GDRs may be limited by US and Russian legal considerations applicable at the time of deposit. You may also not be able to deposit shares and receive GDRs where to do so would require us to produce a further prospectus or a supplemental prospectus. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading

Market—Following the offering you may not be able to deposit shares in the GDR program in order to receive GDRs.''

The issuance of GDRs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the shares have been duly transferred to the Custodian. The Depositary will only deliver GDRs in whole numbers.

When you make a deposit of shares, you will be responsible for transferring good and valid title to the deposited shares to the Depositary, as evidenced by documents satisfactory to the Depositary or the Custodian. As such, you will be deemed to represent and warrant that:

- the shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained;
- all pre-emptive (and similar) rights, if any, with respect to such shares have been validly waived or exercised;
- you are duly authorized to deposit the shares and have fulfilled all requirements of applicable law or regulation with respect to the shares or the deposit thereof against the issuance of GDRs;
- the shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim;
- in the case of a deposit of shares under the Regulation S Deposit Agreement, the shares are not, and the Regulation S GDRs issuable upon such deposit will not be, ''Restricted Securities'' (as defined in the Regulation S Deposit Agreement), except in the case of deposits of a kind described in ''—Ownership of GDRs by Our Affiliates'' below;
- the shares presented for deposit have not been stripped of any rights or entitlements;
- the shares are not subject to any unfulfilled requirements of applicable law or regulation;
- except as provided in the Deposit Agreements and summarized under ''—Ownership of GDRs by Our Affiliates'' below, you are not, and you shall not become while holding GDRs, one of our affiliates; and
- the deposit of the shares complies with the restrictions in transfer set forth in the legend on the GDRs.

If any of the representations or warranties are incorrect in any way, we and the Depositary may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit shares to receive Rule 144A GDRs, you will be required to provide the Depositary with a deposit certification stating, *inter alia*, that:

- you acknowledge that the shares and the Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- you are not an affiliate of Sitronics and you are not acting on behalf of Sitronics or one of its affiliates;
- you are (1) a QIB or (2) a person (other than a U.S. person, as defined in Regulation S) outside the United States and acquired or have agreed to acquire and will acquire the shares to be deposited outside the United States; and
- you agree, as the owner of the Rule 144A GDRs, to offer, sell, pledge and otherwise transfer the Rule 144A GDRs or the shares represented by the Rule 144A GDRs in accordance with the applicable U.S. state securities laws and only:
  - to a QIB in a transaction meeting the requirements of Rule 144A; or
  - outside the United States to a person (other than a U.S. person, as defined in Regulation S) outside the United States in accordance with Regulation S; or
  - in accordance with Rule 144 under the Securities Act, if available; or
  - pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDRs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depositary upon request.

When you deposit shares to receive Regulation S GDRs, you will be required to provide the Depositary with a deposit certification stating, *inter alia*, that:

- you acknowledge that the shares and the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States;
- you are not an affiliate of Sitronics and you are not acting on behalf of Sitronics or one of its affiliates;
- you are, or at the time the shares are deposited and Regulation S GDRs are issued, you will be, the beneficial owner of the shares and the Regulation S GDRs to be issued upon deposit of such shares;
- you are a person (other than a U.S. person, as defined in Regulation S) outside the United States and acquired or have agreed to acquire and will acquire the shares to be deposited outside the United States; and
- you are not in the business of buying and selling securities or, if you are in such business, you did not acquire the shares presented for deposit from us or any of our affiliates.

A copy of the form of deposit certification for Regulation S GDRs is attached to the Regulation S Deposit Agreement and may be obtained from the Depositary upon request.

For information concerning deposit certifications to be made by our affiliates, see "—Ownership of GDRs by Our Affiliates" below.

Withdrawal of Shares Upon Cancellation of GDRs

The GDRs representing shares offered and sold pursuant to the terms of this prospectus have been issued on a provisional basis until we notify the Depositary in writing that the FSFM has registered the placement report in respect of the newly issued shares we are offering in the form of GDRs. Until such time, the GDRs representing such shares will not be eligible for cancellation and withdrawal of underlying shares will not be permitted and the Depositary will refuse to honor any GDR cancellation requests. See "—Registration of Placement Report."

Subject always to the withdrawal of deposited property being permitted under applicable laws and the terms of the applicable Deposit Agreement, as a holder you will be entitled to present your GDRs to the Depositary for cancellation and then receive the corresponding number of underlying shares at the Custodian's offices. Your ability to withdraw the shares may be limited by US and Russian law considerations applicable at the time of withdrawal.

In order to withdraw the shares represented by your GDRs, you will be required to pay to the Depositary the fees for cancellation of GDRs and any charges and taxes payable upon the transfer of the shares being withdrawn and you will be required to provide to the Depositary the applicable withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once cancelled, the GDRs will not have any rights under the corresponding Deposit Agreement.

If you hold a GDR registered in your name, the Depositary may require you to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel your GDRs. The withdrawal of the shares represented by your GDRs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations.

If any GDRs surrendered and GDR Certificates cancelled represent fractional entitlements in the deposited securities, the Depositary shall cause the appropriate whole number of deposited securities to be withdrawn and delivered in accordance with the relevant Deposit Agreement and shall, at its own discretion, either (1) issue and deliver to the person surrendering such GDR Certificate a new GDR Certificate evidencing GDRs representing any remaining fractional share or (2) sell or cause to be sold the fractional share represented by the GDR Certificate and remit proceeds of such sale (net of (a) fees and charges of, and expenses incurred by, the Depositary, and (b) taxes withheld) to the person surrendering the GDR Certificate.

When you request the withdrawal of the shares represented by your Rule 144A GDRs, you will be required to represent and warrant that the withdrawal of the shares complies with the restrictions on transfer set forth in the legend on the GDRs and provide the Depositary with a withdrawal certification stating, *inter alia*, that:

(A) you acknowledge that the shares represented by your Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and

(B) you certify that:

(1) you are a QIB, acting for your own account or for the account of one or more other QIBs, who is the beneficial owner of the Rule 144A GDRs presented for cancellation; and either:

- you have sold or agreed to sell the shares to a person (other than a U.S. person, as defined in Regulation S) outside the United States in accordance with Regulation S;
- you have sold or agreed to sell the shares to a QIB in a transaction meeting the requirements of Rule 144A; or
- you will be the beneficial owner of the shares upon withdrawal and:
- you (or the person on whose behalf you are acting) will sell the shares only to another QIB in a transaction meeting the requirements of Rule 144A; to a person (other than a U.S. person, as defined in Regulation S) outside the United States in accordance with Regulation S; in accordance with Rule 144, if available; or pursuant to an effective registration statement under the US Securities Act; and
- you will not deposit the shares in any depositary receipts facility that is not a "restricted" depositary receipts facility, so long as the shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act; or

(2) you are a person (other than a U.S. person, as defined in Regulation S) located outside the United States and acquired or agreed to acquire the shares outside the United States and will be the beneficial owner of the shares upon withdrawal.

Holders of Regulation S GDRs are not required to provide the Depositary with a withdrawal certification under the Regulation S Deposit Agreement, except in the case of sale of Regulation S GDRs by one of our affiliates. See "—Ownership of GDRs by Our Affiliates" below.

Proofs, Certificates and Other Information

You may be required (1) to provide to the Depositary and the Custodian proof of citizenship or residence, taxpayer status, payment of all applicable taxes or other governmental charges, exchange control approvals, legal or beneficial ownership of GDRs, compliance with all applicable laws and the terms of the Deposit Agreements and (2) to execute certifications and to make representations and warranties and to provide such other information and documentation as the Depositary or the Custodian may deem necessary or proper or as we may reasonably require by written request to the Depositary consistent with its obligations under the Deposit Agreements. The Depositary and the Registrar (as defined in the Deposit Agreements) may withhold the execution or delivery or registration of transfer or cancellation of any GDR Certificate, or the distribution or sale of any dividend or distribution of rights, until such proof or other information is filed or such certifications are executed, or such representations are made, or such other documentation or information is provided, in each case, to the Depositary's, the Registrar's and our reasonable satisfaction.

Holders and beneficial owners of GDRs shall make all necessary notifications or filings and shall obtain, maintain, extend or renew all necessary approvals to, with or from state authorities in the Russian Federation, and shall take all such other actions, as may be required to remain at all times in compliance with applicable rules and regulations of the Russian Federation.

The Depositary shall be entitled to provide to the Russian Federal Service or other relevant Russian state authorities of competent jurisdiction, to the extent reasonably necessary to satisfy the requirements of Russian law, information or documents (in the form of copies or originals) concerning holders and beneficial owners, it being understood that the Depositary accepts no responsibility for or liability arising out of or in connection with any inaccuracies or misstatements in or misleading omissions from any information or documents furnished to it directly or indirectly by or on behalf of the holders and beneficial owners.

Ownership of GDRs by Our Affiliates

We permit our affiliates to deposit shares against the issuance of Rule 144A GDRs, so long as they satisfy the requirements, including delivery of the requisite certifications to the Depositary, as required by the Rule 144A Deposit Agreement. We also permit our affiliates to exchange their Rule 144A GDRs for Regulation S GDRs solely to allow them to sell their GDRs in transactions meeting the requirements of Regulation S, so long as each exchanging affiliate delivers the requisite certifications to the Depositary and otherwise satisfies the requirements of the Deposit Agreements. We do not otherwise permit our affiliates to deposit shares against the issuance of Regulation S GDRs unless they certify to the Depositary that they have sold or irrevocably agreed to sell the Regulation S GDRs to be issued in respect of the shares so deposited in a transaction meeting the requirements of Regulation S, and deliver the other requisite certifications to the Depositary.

The requirements for such deposits and exchanges of GDRs by our affiliates are more fully described in the Deposit Agreements.

Voting Rights

As a holder, you generally have the right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the shares represented by your GDRs other than when such GDRs shall be deemed to be issued on a provisional basis. See "—Registration of Placement Report." The voting rights of holders of shares are described in "Description of Share Capital and Certain Requirements of Russian Legislation."

Upon our timely written request, and provided no US, English or Russian legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the FSA, the admission and disclosure standards of the London Stock Exchange and the rules of Russian stock exchanges on which the shares are listed) exist, the Depositary will distribute to you any notice of shareholders' meetings or solicitation of consents or proxies from holders of shares received from us together with information explaining how to instruct the Depositary to exercise the voting rights of the shares represented by the GDRs.

If the Depositary timely receives voting instructions from a holder of GDRs in the manner specified by the Depositary, it will endeavor, insofar as practicable and permitted under applicable law, the provisions of the applicable Deposit Agreement, our charter and the terms of our shares, to vote or cause the Custodian to vote the shares represented by the holder's GDRs in accordance with such voting instructions. Russian securities regulations expressly permit a Depositary to split the vote of shares registered in its name in accordance with the instructions from GDR holders. However, because the Depositary does not have express statutory authority to split the vote with respect to the shares in accordance with instructions from GDR holders, and given the untested nature of such securities regulations, the Depositary may refrain from voting at all unless all GDR holders have instructed it to vote the shares in the same manner. Consequently, you may have significant difficulty in exercising voting rights with respect to the underlying shares. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Voting rights with respect to the shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law."

Neither the Depositary nor the Custodian will, under any circumstances, exercise any discretion as to voting, vote any number of shares other than an integral number thereof or vote shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian will vote, or attempt to exercise the right to vote, the shares except pursuant to and in accordance with instructions from holders of the GDRs. If the Depositary timely receives voting instructions from a holder of GDRs which fail to specify the manner in which the Depositary is to vote the shares represented by such holder's GDRs, the Depositary will deem the holder to have instructed the Depositary not to vote the shares with respect to the items for which no instruction was given. The shares represented by GDRs for which no specific voting instructions are received by the Depositary from the GDR holder will not be voted.

Notwithstanding anything else contained in the Deposit Agreements, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of the shares if the taking of such action would violate US, English or Russian legal prohibitions (including, without limitation, the listing rules and the prospectus rules of the FSA, the admission and disclosure standards of the London Stock Exchange and the rules of Russian stock exchanges on which the shares are listed). We have agreed in the Deposit Agreements that we shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of the sections of the Deposit Agreements which deal with voting.

The ability of the Depositary to carry out voting instructions may be limited by practical, legal and regulatory limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the Depositary in a timely manner. Securities for which no voting instructions have been received from GDR holders will not be voted. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Voting rights with respect to the shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant requirements of Russian law."

Fees and Charges

Under the Deposit Agreements, the Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the holders, beneficial owners and persons depositing shares or surrendering GDRs for cancellation in respect of its services under the Deposit Agreements:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the offering) or the cancellation of GDRs upon the withdrawal of deposited securities (as defined in the relevant Deposit Agreement): $0.05 or less per GDR issued or cancelled (except for issuances and cancellations covered by clause (ix) below);

(ii) for issuing GDR Certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR Certificates: a sum per GDR Certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR Certificates in definitive registered form (other than pursuant to clause (ii) above): a sum per GDR Certificates which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the deposited securities: a fee of $0.02 or less per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): $0.05 or less per GDR for each such issue of rights, dividend or distribution;

(vi) for the operation and maintenance costs associated with the administration of the GDRs: an annual fee of $0.02 or less per GDR; provided however, that if the Depositary imposes a fee under this clause (vi), then the total of fees assessed under this clause (vi), combined with the total of fees assessed under clause (iv) above, shall not exceed $0.02 per GDR in any calendar year;

(vii) for the expenses incurred by the Depositary, the Custodian or their respective agents in connection with inspections of the relevant share register maintained by the local registrar or for performing due diligence on the central depository for the Russian Federation, if applicable: an annual fee of U.S.$0.01 or less per GDR (such fee to be assessed against holders of record as at the date or dates set by the Depositary as it sees fit and collected at the sole discretion of the Depositary by billing such holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions);

(viii) for the issue of GDRs pursuant to a change for any reason in the number of shares represented by each GDR, regardless of whether or not there has been a deposit of shares to the Custodian or the Depositary for such issuance: a fee of $0.05 or less per GDR (or portion thereof); and

(ix) for transferring interests from and between the Regulation S GDRs and the Rule 144A GDRs: a fee of $0.05 or less per GDR.

In addition, the holders, beneficial owners, persons depositing shares for deposit and persons surrendering GDRs for cancellation and for the purpose of withdrawing deposited securities shall be responsible for the following charges:

(i) taxes (including applicable interest and penalties) and other governmental charges;

(ii) such registration fees as may from time to time be in effect for the registration of shares or other deposited securities on the share register and applicable to transfers of shares or other deposited securities to or from the name of the Custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively;

(iii) such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreements to be at the expense of the person depositing or withdrawing shares or holders and beneficial owners of GDRs;

(iv) the expenses and charges incurred by the Depositary in the conversion of foreign currency;

(v) such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations applicable to shares, deposited securities, GDRs and GDR Certificates; and

(vi) the fees and expenses incurred by the Depositary, the Custodian or any nominee in connection with the delivery or servicing of deposited securities.

We have agreed to pay certain other charges and expenses of the Depositary. The fees and charges that a GDR holder may be required to pay may vary over time and may be changed by us and by the Depositary. Each GDR holder will receive prior notice of such changes.

Amendments and Termination

We may agree with the Depositary to modify the Deposit Agreements at any time without your prior consent. We undertake to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements or that shall impose or increase fees or charges (other than charges in connection with foreign exchange control regulations and taxes and other governmental charges, delivery expenses and other such expenses). We will not consider being materially prejudicial to your substantial rights, among other things, any amendments or supplements that are reasonably necessary for the GDRs to be settled solely in book-entry form, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any amendments or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the Deposit Agreements if you continue to hold your GDRs after the modifications to the applicable Deposit Agreements become effective.

The Deposit Agreements cannot be amended to prevent you from withdrawing the shares represented by your GDRs. Notwithstanding any such restriction on amendments or supplements to the Deposit Agreements, we and the Depositary may at any time amend or supplement the Deposit Agreements or the GDR Certificates in order to comply with mandatory provisions of applicable laws, rules or regulations, and such amendments or supplements may become effective before notice thereof is given to holders or within any other period required to comply with such laws, rules or regulations.

We have the right to direct the Depositary to terminate the Deposit Agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreements. In addition, the Depositary may resign, with such resignation to take effect upon the earlier of 90 days notice or the acceptance of appointment by a successor depositary, or we may remove the Depositary, with such removal to take effect upon the later of 90 days notice or the acceptance of appointment by a successor depositary, and if in either such case no successor depositary shall have accepted appointment by us, then the Depositary may terminate the Deposit Agreements. In either case, the Depositary must give notice to the holders of the GDRs at least 30 days before termination.

Upon termination, the following will occur under the Deposit Agreements:

- for a period of six months after termination, you will be able to request the cancellation of your GDRs and the withdrawal of the shares represented by your GDRs and the delivery of all other property held by the Depositary in respect of those shares on the same terms as prior to the termination, including the payment of any applicable taxes or governmental charges. During such six months' period the Depositary will continue to collect all distributions received on the shares on deposit (*i.e.*, dividends) but will not distribute any such property to you until you request the cancellation of your GDRs.
- after the expiration of such six-month period, the Depositary may sell the securities held on deposit. The Depositary will hold uninvested, the net proceeds from such sale and any other funds then held for the pro rata benefit of the holders of GDRs in an unsegregated, non-interest bearing account, without liability for interest. At that point, the Depositary will have no further obligations to holders other than to account for the funds then held for the pro rata benefit of the holders of GDRs still outstanding, net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements.

Books of Depositary

The Depositary will maintain GDR holder records at its principal office in New York and, if no book-entry settlement system is available for the relevant GDRs, at its principal office in London as well. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDRs and the Deposit Agreements.

The Depositary will maintain facilities in New York and London to record and process the issuance, cancellation, combination, split-up and transfer of GDRs, provided that the transfer of the GDRs shall only be effected by the registrar (as that term is defined in the Deposit Agreements), including the Depositary in its capacity as registrar. These facilities may be closed from time to time, to the extent not prohibited by law.

Transmission of Notices to Shareholders

We will promptly transmit to the Depositary those communications that we make generally available to our shareholders. If those communications were not originally in English, we will translate them prior to transmitting. Upon our request and at our expense, the Depositary will arrange for the mailing of copies of such communications to all GDR holders and will make a copy of such communications available for inspection at its principal offices in New York and London.

Limitations on Obligations and Liabilities

The Deposit Agreements limit our obligations and the Depositary's obligations to you. Please note the following:

- We and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith.
- Neither we nor the Depositary, nor any of our or their respective controlling persons or agents, shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any shares or in respect of the GDR Certificates, which in our or their respective opinion may involve us or them, as the case may be, in expense or liability, unless an indemnity satisfactory to us or them (as the case may be) against all expense (including fees and disbursements of counsel) and liability be furnished as often as may be required (and no Custodian shall be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary).
- The Depositary and its agents disclaim any liability for any failure to carry out any voting instructions to vote any deposited securities, for any manner in which a vote is cast or for the effect of any vote, provided it acts without negligence and in good faith and in accordance with the terms of the Deposit Agreements.
- The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any information submitted by us to it for distribution to you or

for the accuracy of any translation thereof for any investment risks associated with acquiring an interest in the deposited securities, for the validity or worth of the deposited securities, for any tax consequences that result from the ownership of the deposited securities or the GDRs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements or for the failure or timeliness of any of our notices.

- The Depositary and the Custodian disclaim any liability with respect to Russia's system of share registration and custody, including any liability in respect of the unavailability of the deposited securities (or any distribution in respect thereof).
- We and the Depositary agree that neither the Depositary nor the Custodian assumes any obligation or responsibility to make any payments for, nor shall either of them be subject to any liability under the Deposit Agreements or otherwise for nonpayment for, any shares newly issued and placed by us or sold by any selling shareholders in the offering.
- The Depositary disclaims any liability for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations while it acted as Depositary without negligence or bad faith.
- We, the Depositary and our or the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing will not be obligated to do or perform any act that is inconsistent with the provisions of the Deposit Agreements.
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability if we or the Depositary are prevented or forbidden from or delayed in doing or performing any act or thing required by the terms of the Deposit Agreements by reason of any provision of any present or future law or regulation of any applicable jurisdiction, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or any present or future provision of our charter, any provision of or governing any deposited securities or by reason of any act of God or war or other circumstances beyond our control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, acts of terrorism, revolutions, rebellions, explosions and computer failure).
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in our charter or in any provisions of or governing the deposited securities.
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing further disclaim any liability for any action or inaction in reliance in good faith on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any holder of GDRs, any beneficial owner or authorized representative thereof or any other person believed in good faith to be competent to give such advice or information.
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing also disclaim liability for the inability by a holder or any beneficial owner to benefit from any distribution, offering, right or other benefit which is made available to holders of shares but is not, under the terms of the Deposit Agreements, made available to holders of the GDRs.
- We, the Depositary and our respective controlling persons and agents and the Custodian may rely and shall be protected in acting upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- We, the Depositary and our and the Depositary's respective affiliates and the officers, directors, employees, agents and advisors of any of the foregoing also disclaim any liability for indirect, special, consequential or punitive damages for any breach of the terms of the applicable Deposit Agreement.

- The Depositary disclaims liability for any actions taken in accordance with our instructions to take action with respect to the ownership interest of any holder or beneficial owner in excess of the limits applicable to the shares under applicable law or our charter.

Indemnification

The Depositary has agreed to indemnify us and our directors, officers, employees, agents and affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever, including the reasonable fees and expenses of counsel, which may arise out of acts performed or omitted by the Depositary or the Custodian or, provided that the Custodian is a branch or subsidiary of Deutsche Bank AG at the time of such act or omission, by the Custodian under the Deposit Agreements due to the negligence or bad faith of the Depositary or the Custodian.

We have agreed to indemnify the Depositary, the Custodian and any of their respective directors, officers, employees, agents and affiliates against, and hold each of them harmless from, any direct loss, liability, tax, charge or expense of any kind whatsoever, including the reasonable fees and expenses of counsel, that may arise, among other things, (1) out of any issuance, offer or sale of the GDRs or the shares, (2) out of any offering document in respect thereof, except to the extent contained under the caption "Information Relating to the Depositary" in this prospectus, (3) out of acts performed or omitted in accordance with the provisions of the Deposit Agreements, in any such case by the Depositary, the Custodian or any of their respective directors, officers, employees, agents and affiliates, except to the extent such loss, liability, tax, charge or expense is due to the negligence or bad faith of any of them, or by us or any of our directors, officers, employees, agents and affiliates or (4) out of the unavailability of deposited securities or the failure to make any distribution with respect thereto in the case of certain situations.

Pre-Release Transactions

The Depositary may, in certain circumstances, deliver GDRs before receiving a deposit of shares or release shares before receiving GDRs for cancellation. These transactions are ordinarily referred to as "pre-release transactions." The Deposit Agreements limit the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (*i.e.*, the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The Depositary may retain the compensation received from the pre-release transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on the GDRs and the securities represented by the GDRs. We, the Depositary and the Custodian may withhold or deduct from any distribution any withholding taxes and any other taxes and governmental charges payable by holders and may sell any and all shares on deposit to pay any such taxes and governmental charges. You will be liable for any deficiency if the sale proceeds do not cover such taxes and charges that are due. The Depositary may refuse to issue GDRs, to deliver, transfer, split and combine GDRs or to release securities on deposit until all taxes and charges are paid by the applicable holder.

Neither we nor the Depositary or the Custodian are obligated to take any actions to obtain tax refunds or reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfill legal obligations.

The Depositary is under no obligation to provide you with any information about our tax status. The Depositary shall not incur any liability for any tax consequences that may be incurred by you on account of your ownership of the GDRs, including without limitation by virtue of our tax status.

By purchasing GDRs, you agree to indemnify the Depositary, us, the Custodian and any of their or our agents, officers, employees and affiliates for, and to hold each of them and us harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for you as a GDR holder.

Disclosure of Interests and Compliance

By purchasing GDRs, you agree to comply with requests from us or the Depositary pursuant to Russian law, the rules and requirements of any stock exchange on which the shares are, or may be, registered, traded or listed, or our charter, which are made to provide information, *inter alia*, as to the capacity in which you hold or own a beneficial interest in the GDRs (and the shares, as the case may be) and regarding the identity of any other person interested in such GDRs, the nature of such interest and various related matters, whether or not you are a holder or owner of a beneficial interest in the GDRs at the time of such request.

The Depositary shall be entitled to provide to the Russian Federal Service or other relevant Russian state authorities of competent jurisdiction, to the extent reasonably necessary to satisfy the requirements of Russian law, information or documents (in the form of copies or originals) concerning holders and beneficial owners. However, the Depositary has no responsibility for or liability arising out of or in connection with any inaccuracies or misstatements in or misleading omissions from any information or documents furnished to it directly or indirectly by or on behalf of the Holders and beneficial owners.

Holders and beneficial owners shall make all necessary notifications or filings and shall obtain, maintain, extend or renew all necessary approvals to, with or from FAS or other relevant Russian state authorities of competent jurisdiction, and shall take such other actions, as may be necessary to satisfy the applicable requirements of Russian law or regulation.

Foreign Currency Conversion

The Depositary will arrange for the conversion into U.S. dollars of all foreign currency received if such conversion is in the reasonable judgment of the Depositary practicable, and it will distribute the U.S. dollars in accordance with the terms of the Deposit Agreements. You will have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

The Depositary may, but is not obliged to, make any filing with any governmental authority required to obtain an approval or license necessary for any conversion of any foreign currency into or distribution of U.S. dollar funds. If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or, in the reasonable judgment of the Depositary, not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- Convert the foreign currency to the extent practicable and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practicable.
- Distribute the foreign currency to holders for whom the distribution is lawful and practicable.
- Hold the foreign currency (without liability for interest) for the applicable holders.

The Depositary will not invest the currency it cannot convert and it will not be liable for any interest thereon. If exchange rates fluctuate during a time when the Depositary cannot convert the rubles, you may lose some or all of the value of the distribution.

Governing Law and Arbitration of Disputes

Although New York law has been chosen to govern the construction and interpretation of the Deposit Agreements and the GDRs, the rights of holders of the shares and other deposited securities and our obligations and duties in respect of such holders shall be governed by the laws of Russia (or such other jurisdiction's laws as may govern the deposited securities).

Under the terms of the Deposit Agreements owners of GDRs agree that any dispute, controversy or cause of action against us and/or the Depositary arising out of or relating to the GDRs, the Deposit Agreements or any transaction contemplated therein, the shares or other deposited securities will be referred to and finally resolved by arbitration in accordance with the rules of the London Court of International Arbitration in proceedings in London, England, as more fully described in the Deposit Agreements.

EACH PARTY TO THE DEPOSIT AGREEMENTS (INCLUDING, FOR AVOIDANCE OF DOUBT, EACH HOLDER AND BENEFICIAL OWNER) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THE DEPOSIT AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED THEREIN (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY).

Russian Share Register

We have appointed OJSC Reestr as the registrar of our shares in Russia and we have agreed to continue such appointment so long as the GDRs remain outstanding or any of the Deposit Agreements remain in force.

We have agreed in the Deposit Agreements to:

- take any and all actions reasonably necessary to ensure the accuracy and completeness of all of the information contained in the register of shareholders maintained by the share registrar;
- provide or use our reasonable efforts to cause the share registrar to provide unrestricted access by the Depositary and the Custodian to the register of shareholders regularly, and not less than monthly, so as to permit verification of the registration of shares represented by the GDRs in the name of the Depositary or the Custodian or their respective nominees;
- use our reasonable efforts to cause the share registrar to promptly notify the Depositary (1) of any material and uncured breaches by the share registrar of the terms of the Deposit Agreements and (2) any time the share registrar will no longer be able materially to comply with, or has engaged in conduct that indicates it will not materially comply with, the provisions of the Deposit Agreements relating to it;
- use our reasonable efforts to cause the share registrar to promptly (and, in any event, within three business days in Moscow, Russia of receipt by the share registrar of such documentation as may be required by applicable law and regulation and the reasonable and customary internal regulations of the share registrar, or as soon as practicable thereafter) re-register the shares being deposited into or withdrawn from the GDR facilities; and
- use our reasonable efforts to cause the share registrar to promptly notify the Depositary (1) of any alleged unlawful elimination of shareholders from the shareholder register (or any alleged unlawful alteration of shareholder records), (2) of any alleged unlawful refusal to register shares and (3) any time the share registrar holds the shares for its own account.

In the Deposit Agreements we have agreed to assume sole liability for:

- any act or failure to act of the share registrar (other than as a result of any act or failure to act by the Depositary or the Custodian or their respective directors, employees, agents or affiliates);
- unavailability of shares on deposit under the terms of the Deposit Agreements; and
- failure of the Depositary to make any distributions contemplated by the Deposit Agreements as a result of our actions or those of our agents, the actions of the share registrar (other than as a result of any act or failure to act by the Depositary or the Custodian or their respective directors, employees, agents or affiliates), and provisions of our present or future charter (or other instrument governing the deposited securities), and any provisions of any securities we issue or distribute and any related distribution or offering.

The Depositary has agreed, for the benefit of the owners of GDRs, to confirm not less frequently than monthly, the number of shares identified on the share register as being on deposit pursuant to the terms of the Deposit Agreements. We have agreed with the Depositary that the Custodian shall maintain custody of all duplicate share extracts (or other evidence of verification) provided to the Depositary, the Custodian or their respective agents, and that any known material discrepancies between the records of the Depositary and the Custodian, on the one hand, and the records of the share registrar, on the other hand, will be brought to our attention promptly. We will use our reasonable efforts to cause the share registrar to reconcile any discrepancies and to effectuate the requisite corrections to the share register. In the event we are unable to obtain such reconciliation of records and the discrepancy exceeds 0.5% of the number of shares identified on the records of the Depositary or the Custodian as being on deposit under the terms of any one of the Deposit Agreements, we will give notice thereof to the owners of GDRs (through the Depositary) and the Depositary shall cease issuance of new GDRs until the records have been appropriately reconciled.

US Securities Act and Other Legends

Legends for Rule 144A GDRs

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE DEPOSITARY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY, HEREBY CERTIFIES THAT CEDE & CO., AS NOMINEE OF DTC, IS THE RECORD OWNER OF THE NUMBER OF RULE 144A GDRS INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES, OF JSC SITRONICS, AN OPEN JOINT STOCK COMPANY ORGANIZED UNDER THE LAWS OF THE RUSSIAN FEDERATION. AT THE DATE HEREOF, EACH RULE 144A GDR SHALL REPRESENT SUCH SHARES DEPOSITED UNDER THE RULE 144A DEPOSIT AGREEMENT WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE RULE 144A DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD.

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. ANY OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

NEITHER THE HOLDER NOR THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED

DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRS.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING.

THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE RULE 144A DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY NOR THE CUSTODIAN ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM BE SUBJECT TO ANY LIABILITY UNDER THE RULE 144A DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, THE SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING OF SUCH SHARES BY THE COMPANY AND THE SELLING SHAREHOLDERS (INCLUDING ANY EXERCISE BY THE UNDERWRITERS OF AN OVER-ALLOTMENT OPTION IN CONNECTION THEREWITH).

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE INITIAL OFFERING HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE RULE 144A GDRS EVIDENCED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIPT OF SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS RULE 144A GDR CERTIFICATE OR THE RULE 144A DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS RULE 144A GDR CERTIFICATE OR SECTION 2.7 OF THE RULE 144A DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS RECEIPT AND SECTION 4.10 OF THE RULE 144A DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE INITIAL OFFERING HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDERS AND THE UNDERWRITERS PARTICIPATING IN THE OFFERING MAY AGREE), UPON WRITTEN NOTICE BY THE COMPANY, THE PROCEEDS OF THE PLACEMENT OF THE SHARES SHALL BE DELIVERED TO THE DEPOSITARY AND FROM THE TIME OF RECEIPT OF SUCH FUNDS THIS RULE 144A GDR CERTIFICATE WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN U.S. DOLLARS WILL BE CONVERTED INTO U.S. DOLLARS (AT MARKET RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF RULE 144A GDRS, IN EACH CASE UPON THE TERMS OF THE RULE 144A DEPOSIT AGREEMENT. THE RULE 144A GDRS WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER OF THIS RULE 144A GDR CERTIFICATE. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF RULE 144A GDRS MAY BE LESS THAN THE PRICE AT WHICH THE RULE 144A GDRS HAVE BEEN SOLD BY THE COMPANY OR THE SELLING SHAREHOLDERS OR PURCHASED BY THE HOLDER THEREOF, AND MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.

EACH HOLDER AND BENEFICIAL OWNER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING RULE 144A GDRS REPRESENTED BY THIS CERTIFICATE, AGREES, FOR THE BENEFIT OF JSC SITRONICS AND THE DEPOSITARY NAMED BELOW,

THAT THE RULE 144A GDRS REPRESENTED BY THIS CERTIFICATE MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS, UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

Legends for Regulation S GDRs

DEUTSCHE BANK TRUST COMPANY AMERICAS, A BANKING CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, AS DEPOSITARY, HEREBY CERTIFIES THAT BT GLOBENET NOMINEES LIMITED, AS NOMINEE OF DEUTSCHE BANK AG, LONDON BRANCH, AS COMMON DEPOSITARY FOR EUROCLEAR AND CLEARSTREAM, IS THE RECORD OWNER OF THE NUMBER OF REGULATION S GDRS INDICATED ON THE RECORDS OF THE DEPOSITARY, REPRESENTING DEPOSITED VALIDLY ISSUED AND FULLY PAID SHARES, OR EVIDENCE OF RIGHTS TO RECEIVE SUCH SHARES, OF JSC SITRONICS, AN OPEN JOINT STOCK COMPANY ORGANIZED UNDER THE LAWS OF THE RUSSIAN FEDERATION. AT THE DATE HEREOF, EACH REGULATION S GDR SHALL REPRESENT SUCH SHARES DEPOSITED UNDER THE REGULATION S DEPOSIT AGREEMENT WITH THE CUSTODIAN, WHICH AT THE DATE OF THE EXECUTION OF THE REGULATION S DEPOSIT AGREEMENT IS DEUTSCHE BANK LTD.

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRS EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRS EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE COMPANY AND THE DEPOSITARY HAVE AGREED IN THE REGULATION S DEPOSIT AGREEMENT THAT NEITHER THE DEPOSITARY NOR THE CUSTODIAN

ASSUMES ANY OBLIGATION OR RESPONSIBILITY TO MAKE ANY PAYMENTS FOR, NOR SHALL EITHER OF THEM BE SUBJECT TO ANY LIABILITY UNDER THE REGULATION S DEPOSIT AGREEMENT OR OTHERWISE FOR NONPAYMENT FOR, the SHARES ISSUED BY THE COMPANY AND PLACED IN THE INITIAL OFFERING OF SUCH SHARES BY THE COMPANY AND THE SELLING SHAREHOLDERS (INCLUDING ANY EXERCISE BY THE UNDERWRITERS OF AN OVER-ALLOTMENT OPTION IN CONNECTION THEREWITH).

PRIOR TO RECEIPT BY THE DEPOSITARY OF WRITTEN NOTICE FROM THE COMPANY THAT A REPORT ON THE RESULTS OF THE ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE INITIAL OFFERING HAS BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS, THE REGULATION S GDRS EVIDENCED HEREBY ARE ISSUED ON A PROVISIONAL BASIS. PRIOR TO RECEIPT OF SUCH NOTICE, NOTWITHSTANDING ANYTHING IN THIS REGULATION S GDR CERTIFICATE OR THE REGULATION S DEPOSIT AGREEMENT TO THE CONTRARY, THE DEPOSITARY SHALL NOT, EXCEPT AS SPECIFICALLY DESCRIBED BELOW, DELIVER ANY SHARES PURSUANT TO PARAGRAPH 2 OF THIS REGULATION S GDR CERTIFICATE OR SECTION 2.7 OF THE REGULATION S DEPOSIT AGREEMENT AND THE DEPOSITARY SHALL NOT VOTE, OR CAUSE TO BE VOTED, SECURITIES DEPOSITED THEREUNDER, AND HOLDERS SHALL NOT BE ENTITLED TO GIVE VOTING INSTRUCTIONS, AS CONTEMPLATED BY PARAGRAPH 19 OF THIS RECEIPT AND SECTION 4.10 OF THE REGULATION S DEPOSIT AGREEMENT.

IF A REPORT ON THE RESULTS OF ISSUE OF THE SHARES NEWLY ISSUED AND PLACED BY THE COMPANY IN THE INITIAL OFFERING HAS NOT BEEN REGISTERED WITH THE RUSSIAN FEDERAL SERVICE FOR THE FINANCIAL MARKETS ON OR BEFORE THE DATE WHICH IS 60 DAYS AFTER THE CLOSING DATE FOR SUCH OFFERING (OR SUCH LATER DATE AS THE COMPANY, THE SELLING SHAREHOLDERS AND THE UNDERWRITERS PARTICIPATING IN THE OFFERING MAY AGREE), UPON WRITTEN NOTICE BY THE COMPANY, THE PROCEEDS OF THE PLACEMENT OF THE SHARES SHALL BE DELIVERED TO THE DEPOSITARY AND FROM THE TIME OF RECEIPT OF SUCH FUNDS THIS REGULATION S GDR CERTIFICATE WILL REPRESENT THE RIGHT TO RECEIVE A PROPORTIONAL INTEREST IN THE FUNDS SO RECEIVED. THE FUNDS SO RECEIVED BY THE DEPOSITARY IN ANY CURRENCY OTHER THAN U.S. DOLLARS WILL BE CONVERTED INTO U.S. DOLLARS (AT MARKET RATES THEN AVAILABLE) AND DISTRIBUTED TO HOLDERS OF REGULATION S GDRS, IN EACH CASE UPON THE TERMS OF THE REGULATION S DEPOSIT AGREEMENT. THE REGULATION S GDRS WILL BE CANCELLED BY THE DEPOSITARY UPON DISTRIBUTION OF THE PROPORTIONAL INTERESTS IN THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO THE HOLDER OF THIS REGULATION S GDR CERTIFICATE. THE FUNDS SO RECEIVED, CONVERTED (IF NECESSARY) AND DISTRIBUTED TO HOLDERS OF REGULATION S GDRS MAY BE LESS THAN THE PRICE AT WHICH THE REGULATION S GDRS HAVE BEEN SOLD BY THE COMPANY OR THE SELLING SHAREHOLDERS OR PURCHASED BY THE HOLDERS THEREOF, AND MAY BE SUBJECT TO WITHHOLDING TAXES OR DELAYS.

EACH HOLDER AND BENEFICIAL OWNER HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING REGULATION S GDRS REPRESENTED BY THIS CERTIFICATE, AGREES, FOR THE BENEFIT OF JSC SITRONICS AND THE DEPOSITARY NAMED BELOW, THAT THE REGULATION S GDRS REPRESENTED BY THIS CERTIFICATE MAY NOT AT ANY TIME BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY PERSON LOCATED IN RUSSIA, RESIDENTS OF RUSSIA, OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, SUCH PERSONS, UNLESS AND TO THE EXTENT OTHERWISE PERMITTED UNDER RUSSIAN LAW.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE RUSSIAN SHARE REGISTRAR OF THE COMPANY IN THE NAME OF DEUTSCHE BANK TRUST COMPANY AMERICAS, AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE. HOLDERS AND BENEFICIAL OWNERS SHOULD BE AWARE, HOWEVER, THAT RUSSIA'S SYSTEM OF SHARE REGISTRATION AND CUSTODY CREATES RISKS OF LOSS THAT ARE NOT NORMALLY ASSOCIATED WITH INVESTMENTS IN OTHER SECURITIES

MARKETS. THE DEPOSITARY WILL NOT BE LIABLE FOR THE UNAVAILABILITY OF SHARES OR FOR THE FAILURE TO MAKE ANY DISTRIBUTION OF CASH OR PROPERTY WITH RESPECT THERETO AS A RESULT OF SUCH UNAVAILABILITY.

THE DEPOSITARY HAS BEEN ADVISED BY RUSSIAN COUNSEL THAT COURTS IN THE RUSSIAN FEDERATION ARE NOT REQUIRED TO RECOGNIZE OR ENFORCE JUDGMENTS OBTAINED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK.

TAXATION

The following summary of certain material U.S. federal income, United Kingdom and Russian tax consequences of ownership of the shares or GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the shares or GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of the shares or GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of the shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this prospectus, and of any actual changes in applicable tax laws after such date.

Certain Material United States Federal Income Tax Considerations

TO COMPLY WITH INTERNAL REVENUE SERVICE CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS PROSPECTUS AND RELATED MATERIALS IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY YOU, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU UNDER THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED; (B) ANY SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING BY US OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a general description of certain material U.S. federal income tax consequences to U.S. holders (defined below) under current law of an investment in the shares or GDRs. This discussion is based on the tax laws of the United States as in effect on the date of this prospectus and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this prospectus, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below. If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of GDRs or shares, the U.S. federal income tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Since your U.S. federal income and withholding tax treatment may vary depending upon your particular situation, you may be subject to special rules not discussed below. Special rules will apply, for example, if you are:

- a bank;
- a person holding GDRs or shares through a partnership or other pass-through entity;
- an insurance company;
- a tax-exempt organization;
- a financial institution;
- a person subject to the alternative minimum tax;
- a person who is a broker-dealer in securities;
- an S corporation;
- a trader that elects to mark-to-market;
- a U.S. expatriate;
- an owner holding, directly, indirectly or by attribution, 10% or more of our voting stock; or
- an owner holding GDRs or shares as part of a hedge, straddle, synthetic security, conversion or integrated transaction.

In addition, this summary is generally limited to persons holding shares or GDRs as "capital assets" within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended, and whose functional currency is the U.S. dollar. The discussion below does not address the effect of any U.S. state or local tax law or foreign tax law.

The discussion below of the U.S. federal income tax consequences to "U.S. holders" will apply if you are a beneficial owner of GDRs or shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation) organized under the laws of the United States, any State thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

The discussion below assumes that the representations contained in the Deposit Agreements are true and that the obligations in the Deposit Agreements and any related agreement will be complied with in accordance with their terms. Although not free from doubt, for purposes of U.S. federal income tax law, a U.S. holder of a GDR should be treated as the owner of the underlying shares represented by that GDR.

The U.S. Treasury has expressed concerns that parties to whom GDRs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. persons for U.S. federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. persons, as described below. Accordingly, the analysis of the creditability of Russian taxes described below, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. persons, could be affected by future actions that may be taken by the U.S. Treasury or parties to whom the GDRs are pre-released.

PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF THE UNITED STATES FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE AND LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF GDRs OR SHARES.

Taxation of Dividends on Shares or GDRs

Subject to the PFIC rules discussed below, for U.S. federal income tax purposes, the U.S. dollar value of the gross amount of a distribution (including any Russian withholding taxes) with respect to shares or GDRs generally will be included in your gross income on the date of actual or constructive receipt by the Depositary, in the case of GDRs, and by you, in the case of shares, and will be treated as a taxable dividend to the extent of our current and accumulated earnings and profits, computed in accordance with U.S. federal income tax principles. You should be aware that we do not intend to calculate our earnings and profits for U.S. federal income tax purposes and, unless we make such calculations, you should assume that any distributions with respect to shares or GDRs will constitute ordinary dividend income. For taxable years beginning before January 1, 2011, if you are a non-corporate taxpayer (including an individual), dividends may be taxed at the reduced rate normally applicable to capital gains, provided (1) certain holding period requirements are satisfied, (2) we are eligible for the benefits of the Convention between the United States of America and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital (the "United States-Russia Tax Treaty") and (3) we are not a PFIC for either our taxable year in which the dividend is paid or the preceding taxable year. Non-corporate U.S. holders are strongly urged to consult their tax advisors as to the applicability of the lower capital gains rate to dividends received with respect to shares or GDRs. If you are a corporation, you will not be allowed a deduction for dividends received in respect of distributions on shares or GDRs, which is generally available for dividends paid by U.S. corporations. If a dividend distribution is paid in rubles, any gain or loss resulting from the subsequent conversion of such rubles into U.S. dollars generally will be treated as U.S. source ordinary income or loss.

Russian tax withheld from distributions at the rate applicable to you under the United States-Russia Tax Treaty should be treated as a foreign income tax that, subject to generally applicable limitations and conditions, is eligible for credit against your U.S. federal income tax liability or, at your election, may be deducted in computing taxable income, provided, in each case, that the amounts withheld and paid to the Russian tax authorities are treated as satisfying your tax liability. If Russian tax is withheld at a rate in excess of the rate applicable to you under the United States-Russia Tax Treaty, you may not be entitled to credits for the excess amount because such amounts might be treated as recoverable by you for U.S. federal income tax purposes, even though the procedures for claiming refunds and the practical likelihood that refunds will be made available in a timely fashion are uncertain. New foreign tax credit regulations have been recently proposed by the U.S. Department of the Treasury and the Internal Revenue Service, and it is uncertain whether, if adopted in final form, they could affect U.S. holders' ability to credit Russian tax withheld from dividends against their U.S. federal income tax liability. You may be required to recognize as ordinary income or loss foreign currency gain or loss on the receipt of a refund of Russian withholding tax to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of that amount on the date of receipt of the underlying dividend.

A dividend distribution will generally be treated as foreign source income and will generally be classified as "passive income" or, in some cases, "financial services income" for U.S. foreign tax credit purposes for taxable years beginning on or before December 31, 2006. For taxable years beginning after December 31, 2006, the number of classes of foreign source income will be reduced to two and dividends generally would constitute "passive category income" but could, in the case of certain U.S. holders, constitute "general category income."

The rules relating to the determination of the foreign tax credit, or deduction in lieu of the foreign tax credit, are complex and you should consult your tax adviser to determine whether and to what extent a credit, or a deduction in lieu of a credit, would be available in your particular circumstances.

Taxation on Sale or Exchange of Shares or GDRs

Subject to the PFIC rules discussed below, the sale or other taxable disposition of shares or GDRs will generally result in the recognition of capital gain or loss in an amount equal to the difference between the U.S. dollar value of the amount realized on the sale or other disposition and your U.S. dollar adjusted basis in such shares or GDRs. Any such gain or loss will generally be long-term capital gain or loss if the shares or GDRs have been held for more than one year. If you are an individual, such realized long-term capital gain is generally subject to a reduced rate of U.S. federal income tax. Limitations may apply to your ability to offset capital losses against ordinary income.

Gain realized on the sale of shares or GDRs will generally be treated as U.S. source income and therefore the use of foreign tax credits relating to any Russian taxes imposed upon such sale may be limited. You are strongly urged to consult your own tax advisors as to the availability of tax credits for any Russian taxes withheld on the sale of shares or GDRs under the United States-Russia Tax Treaty.

Deposits and withdrawals of shares by you in exchange for GDRs should not result in the recognition of gain or loss for U.S. federal income tax purposes. Your tax basis in the withdrawn shares will be the same as your tax basis in the GDRs surrendered, and the holding period of the shares will include the holding period of the GDRs.

Passive Foreign Investment Company

A non-U.S. corporation is considered to be a PFIC for any taxable year if, applying certain look-through rules, either:

- at least 75% of its gross income is passive income; or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

We do not expect to be a PFIC for United States federal income tax purposes for our current taxable year ending December 31, 2007. However, our PFIC status is a factual determination made after the close of each taxable year and thus there can be no assurance that we will not be treated as a PFIC in our current taxable year or future taxable years.

If we are a PFIC for any taxable year during which you hold GDRs or shares, you will be subject to special tax rules with respect to any "excess distribution" that you receive and any gain you realize from a sale or other disposition (including a pledge) of the GDRs or shares, unless you make a "mark-to-market" election as discussed below. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the GDRs or shares;
- the amount allocated to the current taxable year, and any taxable year in your holding period prior to the first taxable year in which we became a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

If we are a PFIC for any year during which you hold GDRs or shares, we generally will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold GDRs or shares. If we cease to be a PFIC, you may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the GDRs or shares, as applicable. We do not intend to prepare or provide the information that would enable you to make a qualified electing fund election.

If a U.S. holder makes a mark-to-market election, such holder generally will include as ordinary income the excess, if any, of the fair market value of the GDRs or shares at the end of each taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the GDRs or shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Any gain recognized on the sale or other disposition of GDRs or shares will be treated as ordinary income. The mark-to-market election is available only for "marketable stock," which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable U.S. Treasury regulations. You should consult your tax advisors regarding the application of the PFIC rules to your investment in the GDRs or shares.

Information Reporting and Backup Withholding

Dividend payments with respect to GDRs or shares and proceeds from the sale, exchange or redemption of GDRs or shares made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, if you furnish a correct taxpayer identification number and make any other required certification or if you are otherwise exempt from backup withholding (for example, if you are a corporation) and establish your exempt status.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

UK Tax Considerations

The comments below are of a general nature and are based on current UK law and published H.M. Revenue & Customs practice as of the date of this prospectus, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the UK and Russia (the "UK Treaty"), each of which is subject to change, possibly with retroactive effect. The summary only covers the principal UK tax consequences for the absolute beneficial owners of the shares and GDRs (and any dividends paid in respect of them) who:

- are resident (and, in the case of individuals only, ordinarily resident and domiciled) in the UK for tax purposes;
- are not resident in Russia for tax purposes; and
- do not have a permanent establishment or fixed base in Russia with which the holding of the shares or GDRs, and the payment of dividends in respect of the shares or GDRs, is connected.

Such absolute beneficial owners of the shares or GDRs are referred to in this discussion as "UK holders."

In addition, the summary only addresses the principal UK tax consequences for UK holders who hold the shares or GDRs as capital assets. It does not address the UK tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies. It also does not address the UK tax consequences for holders that are banks, financial institutions, insurance companies, collective investment schemes, tax-exempt organizations or persons connected with us.

Further, the summary assumes that:

- a UK holder of the GDRs is, for UK tax purposes, beneficially entitled to the underlying shares and to the dividends on those shares;
- the UK holder did not acquire and will not be deemed to have acquired his/her shares by virtue of an office or employment;
- the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the shares and/or voting power of the Company; and
- the shares will not be registered in a register kept in the UK, by or on behalf of the Company.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular UK holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under UK law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of the shares or GDRs in their own particular circumstances, by consulting their own tax advisors.

Taxation of Dividends

Income Tax and Corporation Tax

UK holders will, in general, be subject to UK income tax or corporation tax on the total of the dividends received on their shares or GDRs.

Withholding Tax and Tax Credits

Any Russian withholding tax on dividends may be allowed as a credit against the UK income/corporation tax liability of a UK holder on those dividends depending on the circumstances. See also "—Russian Federation Tax Considerations."

The Company need not make any deduction from payments of dividends for or on account of UK tax.

Tax Liability for Individual UK Holders

For an individual UK holder who is liable to UK income tax on dividends, UK income tax will be chargeable on the gross dividend with potential credit (as described above) for Russian tax deducted at source. For an individual UK holder who is liable to UK tax on the dividend at the dividend ordinary rate (currently 10%), any credit for Russian tax deducted at source may equal or exceed his UK income tax liability in respect of the dividend, in which case he would have no further UK income tax to pay on the dividend. In appropriate cases, a holder may be entitled to a refund of Russian tax.

Tax Liability for Corporate UK Holders

A UK holder within the charge to UK corporation tax will be liable for UK corporation tax on the receipt of the gross dividend with potential credit for Russian tax deducted at source as described above. In appropriate cases, a holder may be entitled to relief at source or a refund of Russian tax.

Taxation of Capital Gains

The disposal or deemed disposal of shares or GDRs held by UK holders may give rise to a chargeable gain or an allowable loss for the purposes of UK capital gains tax (where the UK holder is an individual) and UK corporation tax on chargeable gains (where the UK holder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief.

As regards individual UK holders, the principal factors that will determine the extent to which such gain will be subject to capital gains tax are the extent to which they realize any other capital gains in that year, the extent to which they have incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the "annual exemption") and the level of available taper relief.

The annual exemption for individuals is £8,800 for the 2006-2007 tax year.

A UK holder that is a company may have capital losses from the year of disposal or an earlier year which it can set off against any gain and may be entitled to an indexation allowance that applies to reduce any chargeable gain. Indexation allowance may reduce a chargeable gain but not create any allowable loss.

Stamp Duty and Stamp Duty Reserve Tax

No ad valorem stamp duty should be payable in the UK in connection with a transfer of the shares provided that nothing in connection with the transfer is done or to be done in the UK and that any instrument of transfer is executed and retained outside the UK.

No stamp duty reserve tax ("SDRT") should be payable in the UK in respect of any agreement to transfer the shares for so long as they continue only to be registered on a share register kept and maintained outside the UK and are not paired with any shares issued by a body corporate incorporated in the UK.

No ad valorem stamp duty or SDRT should arise in the UK in respect of:

- the issue of the GDRs;
- the delivery of GDRs into a clearance service, such as Euroclear or Clearstream; or
- any dealings in the GDRs once they are issued into the clearance service, where such dealings are effected in book entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Russian Federation Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the shares or GDRs and to the purchase, ownership and disposition of such shares or GDRs by their Russian resident and non-resident holders. The summary is based on the laws of Russia in effect on the date of this prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisors regarding the tax consequences of investing in the shares or the GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to the shares and the GDRs are characterized by uncertainties and by an absence of interpretative guidance. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will, in practice, rest substantially with local tax inspectors.

For the purposes of this summary, a "non-resident holder" means:

- As of January 1, 2007, a physical person who holds securities and is present in Russia for less than 183 days (excluding days of arrival into Russia but including days of departure from Russia) in any 12-month rolling period. As of January 1, 2007, presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) with the purpose of medical treatment or education; or

- A legal person or organization, in each case not organized under Russian law, that holds and disposes of securities otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a "Russian resident holder" means:

- As of January 1, 2007, a physical person who holds securities and is present in Russia for 183 days or more (excluding days of arrival into Russia but including days of departure from Russia) in any 12-month rolling period. As of January 1, 2007, presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) with the purpose of medical treatment or education;

- A legal person or organization, in each case organized under Russian law, that holds securities; or

- A legal person or organization, in each case organized under a foreign law, that holds and disposes of securities through its permanent establishment in Russia.

Taxation of Dividends

A Russian company that pays dividends generally must act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian state budget. However, the applicable withholding tax rate will depend on the status of the dividend's recipient.

Russian Resident Holders

Dividends paid to Russian resident holders of shares are generally subject to Russian withholding tax at a rate of 9%. The effective rate of this tax may be lower than 9% owing to the fact that we should calculate this tax by multiplying the tax rate (9%) by the difference between (1) the dividends to be distributed by us to our shareholders (other than to non-resident companies and non-resident individuals) and (2) dividends collected by us in the current and preceding tax periods from other Russian entities.

There are uncertainties in relation to withholding tax on dividends payable to Russian resident GDR holders. In particular, it is unclear whether this income may be treated as dividends for Russian tax purposes and what tax rate applies to this income. Also, there are no specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners. It is unclear therefore how the Russian tax authorities and courts will ultimately treat GDR holders in this regard. In 2005 and 2006, the Ministry of Finance expressed an opinion that GDR holders (rather than the relevant depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residence of the GDR holders is duly confirmed.

In view of the foregoing, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the shares or the GDRs as the risk that resident GDR holders may be subject up to a 24% effective tax rate dividends accrued on shares held in deposit may not be entirely excluded.

Non-Resident Holders

Dividends paid to non-resident holders of shares generally will be subject to Russian withholding tax, which will be withheld by us acting as a tax agent. The applicable domestic rates of withholding tax on such dividends currently are:

- 15% in the case of dividends paid to non-resident holders that are legal entities or organizations; and

- 30% in the case of dividends paid to non-resident individual holders.

These rates may be reduced under the terms of income tax treaties to which Russia is a party. However, because the beneficial ownership concept is not developed in Russian law, it is not clear whether the Depositary (the legal holder of the shares) or a GDR holder should be treated for the purposes of such treaties as the beneficial owner of the shares underlying the GDRs.

Unless we receive adequate clarification from the Russian tax authorities that, subject to certain certification requirements, it is appropriate under Russian law to withhold Russian withholding tax in respect of dividends that it pays to the Depositary at reduced rates under the relevant treaties instead of at the domestic rates applicable to such payments (currently 15%), we intend to withhold Russian withholding tax at the domestic rates applicable to such dividends, regardless of whether the Depositary (the legal owner of the shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the dividends for purposes of that treaty.

Although non-resident GDR holders may apply for a refund under the relevant income tax treaty of a portion of the amount withheld by us, we cannot make any assurances that the Russian tax authorities will grant any refunds. Therefore, it is possible that individuals who are non-resident GDR holders may be subject to up to a 45% effective tax rate on dividends accrued on shares held in deposit.

Taxation of Capital Gains

Russian Resident Holders

Legal Entities and Organizations

Capital gains arising from the sale of shares or GDRs by any Russian resident holder that is a legal entity or organization will be taxable at a regular Russian tax rate of 24%. Russian tax law requires that profits arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profits and losses from operations with securities that are not quoted on a stock exchange and from operating profits and losses. Therefore, to the extent the shares and GDRs are quoted on a stock exchange Russian resident holders that are not individuals may be able to apply losses arising in respect of sales of the shares or GDRs only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a broker and/or dealer license and to private pension funds. Transactions with the shares and the GDRs will also be subject to transfer pricing rules established by the Tax Code.

Individuals

Under Russian law, capital gains arising from a sale, exchange or other disposition of the shares or GDRs by Russian resident holders will be subject to tax at a rate of 13% on an amount equal to the sales price less the acquisition value of the securities less other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the resident individual and tax withheld upon the sale of securities by April 1 of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

Because Russian law related to taxation of income derived by Russian resident holders (including legal entities, organizations and individuals) on a sale, exchange or other disposition of the shares or the GDRs is not entirely clear, we urge Russian residents to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the shares or GDRs.

Non-Resident Holders

Legal Entities and Organizations

Under current Russian law, capital gains arising from the sale, exchange or other disposition of the shares or GDRs by non-resident holders (legal entities or organizations) should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of our assets.

The determination of whether more than 50% of our assets consist of immovable property located in Russia is inherently factual and is made on an ongoing basis, and because the relevant laws and regulations are not entirely clear, there can be no assurance that immovable property located in Russia does not currently, or will not, constitute more than 50% of such assets.

If more than 50% of our assets were to consist of immovable property located in Russia, then non-resident holders of the shares or GDRs would be subject to a 20% withholding tax on the gross proceeds from a sale, exchange or other disposition of the shares or GDRs, or 24% withholding tax on the capital gain realized from such sale, exchange or other disposal, capital gain being the difference between the sales price and acquisition value of the shares or GDRs. However, gains arising from the sale of the shares or GDRs on a foreign stock exchange by a non-resident holder that is a legal entity or organization should not be subject to taxation in Russia.

Individuals

Under Russian personal income tax law, should gains from a sale, exchange or other disposal of the shares or GDRs by non-resident holders who are individuals be considered Russian source income, they will be subject to tax at the rate of 30%.

According to Russian tax legislation, taxation of income for non-resident individual holders will depend on whether this income is received from Russian or non-Russian sources. Russian tax law gives no clear indication as to how the sale of securities should be sourced, other than that income from the sale of securities "in Russia" is Russian-source. As there is no further definition of what should be considered to be a sale "in Russia," the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares, or other similar criteria.

Should the sale of securities in Russia by non-resident individual holders be considered Russian source income, it will be subject to tax at the rate of 30% on an amount equal to the sales price less the acquisition value of the securities and other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a non-resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account documented deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the non-resident individual and tax withheld upon the sale of the securities by April 1 of the year following the reporting year.

When a sale is made to any party other than a professional dealer or broker, generally no withholding of tax needs to be made and the non-resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation. However, the tax authorities have stated that where the income is received by non-resident individual holders, who do not have a place of permanent residence in Russia, nor are registered in Russia for tax purposes, the entity making payments to such individuals is required to withhold Russian personal income tax at the rate of 30% at source (subject to deductions of documented expenses).

A non-resident holder may be exempt from Russian withholding tax on the sale, exchange or other disposition of shares or GDRs in Russia under the terms of a double tax treaty between Russia and the country of residence of the non-resident holder. For example, under the United States-Russia Tax Treaty, U.S. holders are exempt from the withholding tax on capital gains unless 50% or more of our assets are represented by immovable property located in Russia. The UK Treaty provides for a potential exemption from withholding tax on capital gains received by UK holders unless the gains relate to shares that derive their value or the greater part of their value directly or indirectly from immovable property in Russia and are not quoted on an approved stock exchange. See "—Tax Treaty Procedures."

Tax Treaty Procedures

The relief at source and refund procedures discussed below may be more complicated with respect to dividend payment to GDR holders due to separation of legal ownership and beneficial ownership of the shares underlying the GDRs. Russian tax law does not provide for clear guidance regarding availability of double tax treaty relief for GDR holders. Therefore, we cannot assure prospective GDR holders that relief at source or refunds will be available under the applicable tax treaty in respect of Russian taxes payable or withheld in respect of dividends on shares represented by GDRs.

A non-resident holder seeking to obtain a reduced rate of Russian withholding tax at source under a tax treaty must provide a confirmation of its tax treaty residence that is certified by the competent authorities in the relevant treaty jurisdiction in advance of our payment of dividends. The residence confirmation needs to be reviewed on an annual basis and certified by the relevant authority. The residence confirmation may need to bear an apostille.

If the Russian tax authorities were to approve a certification process for the purposes of allowing us to withhold Russian withholding tax at reduced treaty rates in respect of dividends that it pays to the Depositary, it is anticipated that a US GDR holder would be required to provide us with the US GDR holder's certification of its last filed U.S. federal income tax return in the form of an IRS Form 6166 (an "IRS Form 6166") in order to allow us to comply with that certification process.

For this purpose, it also may be necessary for a non-resident GDR holder to demonstrate its legal title to the relevant GDR interest.

The Deposit Agreements provide that the Depositary will make all reasonable efforts to provide us with certifications and other documents that are required in order to comply with any certification process that has been approved by the Russian tax authorities for this purpose.

An IRS Form 6166 can generally be obtained by filing a request (generally an IRS Form 8802) with the Internal Revenue Service Center in Philadelphia, Pennsylvania, US Residency Certification Request, P.O. Box 42530, Philadelphia PA 19101-2530, USA. US GDR holders should consult their tax advisors and the instructions to IRS Form 8802 for further details on how to obtain this certification.

Under current Russian tax law and practice, advance relief from withholding taxes will generally be impossible for individual non-resident holders because it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end as currently required.

In order to apply for treaty relief, personal tax returns and supporting documentation should be submitted to the tax authorities. In practice, application of double tax treaty provisions may be time consuming and bureaucratic if the Russian tax authorities require additional documents at their discretion. In addition, treaty relief may be further complicated in situations where it is difficult to show the tax authorities a direct link between income received by the individual GDR holder and the tax withheld by us on dividend distributions as there are no specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners.

If a non-resident does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian payer, the non-resident holder may apply for a refund within three years from the end of the tax period in which the tax was withheld, if the recipient is a legal entity or organization, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. To process a claim of a refund, the Russian tax authorities may require, among others, the following documents:

- an apostilled confirmation of the tax treaty residence of the non-resident at the time the income was paid;
- an application for refund of the tax withheld in a format provided by the Russian tax authorities (Form 1012DT for dividends and interest and 1011DT for other income);
- copies of the relevant contracts and payment documents confirming the payment of the tax withheld to the Russian Federation state budget; and
- confirmation of income received and taxes paid in the country of residence.

The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month of the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds. See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—Non-resident investors may be subject to Russian tax withheld at source on trades of the shares or GDRs through or to certain Russian payors."

SUBSCRIPTION AND SALE

Description of the Distribution

We, the Selling Shareholders and the Underwriters named below have entered into the Underwriting Agreement dated February 7, 2007 with respect to the shares and the shares represented by the GDRs being offered. Subject to the satisfaction of certain conditions set out in the Underwriting Agreement, each Underwriter has agreed, severally but not jointly, to subscribe for or purchase the shares and the shares represented by the GDRs, and pay for such number of shares and/or GDRs as are set forth opposite its name in the following table.

	Number of Shares		
Underwriters	**Sitronics (in the form of GDRs)**	**Selling Shareholders**	**Total**
Credit Suisse Securities (Europe) Limited(1)	464,951,750	37,548,250	502,500,000
Goldman Sachs International(2)	464,951,750	37,548,250	502,500,000
Renaissance Securities (Cyprus) Limited(3)	464,951,750	37,548,250	502,500,000
HSBC Bank plc(4)	154,983,950	12,516,050	167,500,000
Total	1,549,839,200	125,160,800	1,675,000,000

(1) Credit Suisse Securities (Europe) Limited is an international investment bank. Its offices in London are located at One Cabot Square, London E14 4QJ, United Kingdom.

(2) Goldman Sachs International is an international investment bank. Its offices in London are located at Peterborough Court, 133 Fleet Street, London EC4A 2BB, United Kingdom.

(3) Renaissance Securities (Cyprus) Limited is an international investment bank. Its offices in Cyprus are located at 2-4 Archbishop Makarios III Avenue, Capital Center, 9th Floor, Nicosia 1505, Cyprus.

(4) HSBC Bank plc is an international banking institution. Its offices in London are located at 8 Canada Square, London E14 5HQ, United Kingdom.

The GDRs will be evidenced by a Master Rule 144A GDR Certificate and a Master Regulation S GDR Certificate, and will be subject to certain restrictions as further discussed in "Description of the Global Depositary Receipts."

The total commissions will be approximately $14.1 million assuming no exercise of the Over-allotment Option.

We estimate that the total expenses of the offering, other than commissions, will be approximately $6.5 million.

We have provided the Underwriters with customary representations and warranties under the Underwriting Agreement, including in relation to our business, the shares and GDRs and the contents of this prospectus. The Selling Shareholders have provided the Underwriters with customary representations and warranties under the Underwriting Agreement, including in relation to their title to the shares they are selling in the offering.

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent. In addition, the Joint Global Coordinators, on behalf of the Underwriters, may terminate the Underwriting Agreement in certain circumstances prior to the Closing Date. We and the Selling Shareholders have agreed in the Underwriting Agreement, subject to its terms, to indemnify the Underwriters against certain liabilities in connection with the sale of the shares and the GDRs. In addition, we have agreed to reimburse the Underwriters for certain of their expenses.

Over-allotment Option

We have granted to the Underwriters an option exercisable within 30 days after the announcement of the offer price, to purchase up to an additional 125,000,000 ordinary shares in the form of GDRs at the offer price, solely to cover over-allotments in the offering.

Stabilization

In connection with the offering, Credit Suisse Securities (Europe) Limited, as the Stabilizing Manager or its agents may, in consultation and after agreement with the other Joint Global Coordinators, on behalf of the Underwriters and for a limited period after the announcement of the offer price, overallot or effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might have otherwise prevailed in the open market. However, the Stabilizing Manager or such agents have no obligation to do so. Such stabilization, if commenced, may begin after the announcement of the offer price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 days after the announcement of the offer price. The Underwriters do not intend to disclose the extent of any such stabilization transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Limitations Prior to Registration of Placement Report and Consequences of Non-registration

Under Russian law, placement of the newly issued shares we are offering pursuant to this prospectus is subject to the registration of a placement report with the FSFM. Russian law requires that we file the placement report within 30 days following the completion of the placement, which is specified to occur on the 36th day after the date of the underwriting agreement in our share registration documents in order to allow for the issuance of shares in connection with the Over-allotment Option. We intend to file the placement report as soon as practicable following the completion of the placement. The FSFM is statutorily required to make its decision within two weeks after we file the placement report, but it may take longer or the registration of the placement report may not occur at all. Although it is not uncommon for the FSFM to refuse to register the placement report on technical grounds, no such refusals have been reported in relation to major international initial public offerings of Russian companies.

In the event that the placement report is not registered by the FSFM within 60 days after the Closing Date (or such later date as we agree with the Underwriters), we will issue a press release and notify the Depositary and the London Stock Exchange, and trading in the GDRs will be cancelled. Under Russian law, in the case of non-registration of the placement report we are required to return the full amount of proceeds that were initially deposited into our account on the Closing Date and the Over-allotment Option closing date (if any). Such amount will be paid to the Depositary for remittance to the holders of the GDRs, and the GDRs will represent the right to receive a proportional interest in the funds so received. The Depositary will then promptly cancel such number of GDRs as corresponds to the number of newly issued shares being cancelled on a pro rata basis or on such other basis as it deems practicable in its sole discretion, and distribute through DTC, Euroclear and Clearstream, as applicable, the funds it has received, pro rata or on such other basis as it deems practicable in its sole discretion to the then holders of GDRs, subject to the terms of the Deposit Agreements. The amount per GDR ultimately delivered to holders of GDRs will be less than the initial public offering price per GDR. The delivery of funds may be subject to applicable withholding taxes and may be delayed or diminished due to Russian currency control, banking and securities regulations or practices (including those potentially requiring the conversion of funds from or into rubles) and may be prevented if there is a change in such regulations or practices. GDR holders will be taking credit risk on us and the Underwriters for the delivery of funds in the event that the placement report is not registered.

Until the registration of the placement report, all GDRs will be issued on a provisional basis and GDR holders will not be entitled to instruct the Depositary to exercise any voting rights as a shareholder, and neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. GDR holders may not withdraw the shares or other property on deposit with the Depositary in respect of the GDRs sold in the offering prior to the registration of the placement report. Such limitations on withdrawal and voting of the underlying ordinary shares apply with equal force to all shares deposited with the Depositary against the provisional issuance of GDRs prior to the registration of the placement report, whether deposited by us or by the Selling Shareholders with the Depositary at closing against the issuance of GDRs in connection with the offering or otherwise. Such limitation on withdrawal and voting of the underlying ordinary shares will not prohibit trading in the GDRs.

See "Risk Factors—Risks Relating to the GDRs, the Shares and the Trading Market—GDR holders will not be able to withdraw the shares underlying the GDRs prior to the registration of a placement report for the newly issued shares, and the failure to register this placement report could result in the newly issued shares underlying the GDRs being cancelled, reliance by GDR holders on us and the Underwriters to return the offering proceeds and a small public float based solely on the shares sold by the Selling Shareholders."

Lock up Arrangements

We, the Selling Shareholders and Sistema have agreed, subject to certain exceptions, not to issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any shares in us or securities convertible or exchangeable into or exercisable for any shares in us or warrants or other rights to purchase such shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or GDRs representing the right to receive any such securities or publicly announce any intention to do any of the foregoing, from the date hereof until 180 days from the Closing Date, without the prior written consent of the Joint Global Coordinators. However, such consent shall not be required for the sale of the shares to the Underwriters pursuant to the Underwriting Agreement.

Selling Restrictions

United States

The shares and the GDRs have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the offering of the shares and GDRs, an offer or sale of shares or GDRs within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Underwriters propose to offer the shares (1) in the form of shares and GDRs to investors outside the United States in accordance with Regulation S and (2) in the form of shares and GDRs through the US selling agents of certain of the Underwriters, only to QIBs in the United States in accordance with Rule 144A. Each of the Underwriters has agreed that, except as permitted in the Underwriting Agreement, it will not offer, sell or deliver shares or GDRs within the United States.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), an offer of shares or GDRs to the public which are the subject of the offering contemplated by this prospectus may not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares or the GDRs which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares or GDRs to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year, (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of shares or GDRs to the public" in relation to any shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares or the GDRs to be offered so as to enable an investor to decide to purchase or subscribe the shares or the GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each of the Underwriters has represented and agreed that: (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any shares or GDRs in circumstances in which section 21(1) of the FSMA does not apply to us and (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares or the GDRs in, from or otherwise involving the United Kingdom.

Japan

The securities offered hereby have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). Accordingly, the Underwriters have represented, warranted and agreed that the shares and the GDRs which it subscribes will be subscribed by it as principal and that, in connection with the offering made hereby, it will not, directly or indirectly, offer or sell any shares or GDRs in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

Russia

Each of the Underwriters has acknowledged that no Russian prospectus has been registered or is intended to be registered with respect to the GDRs and the GDRs have not been and are not intended to be registered in the Russian Federation and, consequently, it has represented and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any GDRs to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law. It is understood and agreed that the Underwriters or their affiliates may distribute the prospectus to persons in the Russian Federation in a manner that does not constitute an "advertisement" (as defined under Russian law) of GDRs and may resell GDRs to Russian persons in a manner that does not constitute "placement" or "public circulation" of the GDRs in the Russian Federation (as defined under Russian law).

General

Neither we nor the Underwriters, nor any person acting on our or the Underwriters' behalf, have taken or will take any action in any jurisdiction that would permit a public offering of the shares or the GDRs, or the possession, circulation or distribution of this prospectus or any other material relating to us or the shares and the GDRs, in any jurisdiction where action for such purpose is required.

Accordingly, the shares and the GDRs may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by us or any Underwriter. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained in this prospectus is correct as of a date after its date.

Other

The Underwriters and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for us and for our affiliates, for which they received customary fees, and the Underwriters and their respective affiliates may provide such services for us or for them in the future. Affiliates of the Underwriters may purchase shares in the Offering.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised us as follows: DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerized book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations. See "Taxation—Certain Material United States Federal Income Tax Considerations."

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of BT Globenet Nominees Limited, as nominee of Deutsche Bank AG, London Branch, as common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by Mellon Investor Services LLC as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from us for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from us for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, New York 10274, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.F. Kennedy, L-1855 Luxembourg, Luxembourg.

We will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreements.

Settlement and Delivery of Shares

Each purchaser of the shares in the offering is required to pay for any such shares in U.S. dollars within one business day after share delivery. In order to take delivery of the shares, an investor should either have a direct account with our share registrar, OJSC Reestr, or a deposit account with CJSC Depositary Clearing Company ("DCC") or any other depositary that has an account with DCC or a direct account with our share registrar. Investors may at their own expense choose to hold the shares through a direct account with our share registrar. However, directly-held shares are ineligible for trading on the Moscow Stock Exchange or RTS. Only if the shares are deposited with DCC (or through another depositary having an account at DCC) can they be traded on RTS and only if the shares are deposited with the Depositary and Settlement System ("DSS") (or through another depositary having an account in DSS) can they be traded on the Moscow Stock Exchange.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDR Certificates. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

Each purchaser of the shares offered hereby in reliance on Rule 144A ("Rule 144A Shares") will be deemed to have represented and agreed as follows:

(1) The purchaser is (a) a QIB, (b) aware, and each beneficial owner of the shares has been advised, that the sale of the shares to it is being made in reliance on Rule 144A and (c) acquiring the shares for its own account or for the account of a QIB; and

(2) The purchaser understands that the shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be reoffered, resold, pledged or otherwise transferred except (a)(i) to a person whom the purchaser and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or the account a QIB in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144

thereunder (if available) and (b) in accordance with all applicable securities laws of the states of the United States. Such purchaser acknowledges that the shares offered and sold in accordance with Rule 144A are "restricted securities" within the meaning of Rule 144A(a)(3) under the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the shares.

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see "Description of the Global Depositary Receipts—Transfer Restrictions" and "Subscription and Sale—Selling Restrictions."

Trading between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (1) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of us, the Underwriters, the Depositary, the Custodian or our or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state registered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and New York State Banking Department. The Depositary was incorporated on March 5, 1903 as a bank with limited liability in the State of New York and operates under the laws of New York and is an indirect wholly-owned subsidiary of Deutsche Bank AG. The Depositary is subject to regulation and supervision by the New York State Banking Department, the Federal Reserve Board and the Federal Deposit Insurance Corporation. The registered office of the Depositary is located at 60 Wall Street, New York, New York 10005 and the registered number is BR1026. A copy of the Depositary's by-laws, as amended, together with copies of its most recent financial statements and annual report will be available for inspection at the principal administrative establishment of the Depositary located at 60 Wall Street, DR Department, 27th Floor, New York, New York 10005 and at the office of the Depositary located at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Such information will be updated periodically so long as the GDRs are admitted to listing on the official list maintained by the UK Listing Authority.

LEGAL MATTERS

Certain legal matters with respect to the offering will be passed upon for us by Latham & Watkins, London, England and Latham & Watkins LLP, Moscow, Russian Federation and by Liniya Prava, Moscow, Russian Federation. Certain legal matters with respect to the offering will be passed upon for the Underwriters by Skadden, Arps, Slate, Meagher & Flom (UK) LLP, London, England and Skadden, Arps, Slate, Meagher & Flom LLP, Moscow, Russian Federation.

INDEPENDENT AUDITORS

The financial statements of the group as of and for the years ended December 31, 2003, 2004 and 2005 have been audited by ZAO Deloitte & Touche CIS, independent auditors, Business Center "Mokhovaya," 4/7 Vozdvizhenka Street, Bldg. 2, Moscow 125009, Russian Federation. For the purpose of compliance with the Prospectus Rules, ZAO Deloitte & Touche CIS has given and not withdrawn its written consent to the inclusion on page F-2 of this prospectus of its auditors' report, and has authorized the contents of its said auditors' report for the purposes of Annex X item 23.1 in Appendix 3 to the Prospectus Rules. ZAO Deloitte & Touche CIS has also accepted responsibility for its said auditors' report as part of the prospectus and declared that it has taken all reasonable care to ensure that the information contained in that report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with Annex X item 1.2 of the Prospectus Rules. As the offered shares and GDRs have not been and will not be registered under the Securities Act, ZAO Deloitte & Touche CIS has not filed a consent under the Securities Act.

The consolidated financial statements of Intracom Telecom as of and for the year ended December 31, 2005 have been audited by Deloitte Hadjipavlou Sofianos & Cambanis S.A., 250-254 Kifissias Ave. 152 31 Halandri, Athens, Greece. For the purpose of compliance with the Prospectus Rules, Deloitte Hadjipavlou Sofianos & Cambanis S.A. has given and not withdrawn its written consent to the inclusion on page F-73 of this prospectus of its auditors' report, and has authorized the contents of its said auditors' report for the purposes of Annex X item 23.1 in Appendix 3 to the Prospectus Rules. Deloitte Hadjipavlou Sofianos & Cambanis S.A. has also accepted responsibility for its said auditors' report as part of the prospectus and declared that it has taken all reasonable care to ensure that the information contained in that report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with Annex X item 1.2 of the Prospectus Rules. As the offered shares and GDRs have not been and will not be registered under the Securities Act, Deloitte Hadjipavlou Sofianos & Cambanis S.A. has not filed a consent under the Securities Act.

INDUSTRY AND MARKET DATA

We have derived substantially all of the information contained in this prospectus concerning our industry and competitors from publicly available information (including through subscription), and we have relied on the accuracy of this information without independent verification. In particular, we have cited in this prospectus AC&M Consulting, Analysys Research, Datamonitor, Dittberner Associates, Economist Intelligence Unit, Electronics Publishing House, Gartner Research, IDC, Infonetics Research, International Telecommunication Union, iSuppli, Media Research Group, Pioneer Consulting, Snapshots International, Sotovik and Vedomosti daily newspaper, which are independent sources. We confirm that this information has been accurately reproduced and that as far as we are aware and able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

In addition, some of the information contained in this document has been derived from the official data of Russian government agencies. The official data published by Russian federal, regional and local governments are substantially less complete or researched than those of Western countries. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable.

GENERAL INFORMATION

1. It is expected that the GDRs will be admitted, subject only to the issue of the Master Regulation S GDR and the Master Rule 144A GDR, to the Official List on or about February 13, 2007. Application has been made for the GDRs to be traded on the London Stock Exchange. Prior to admission to the Official List, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
2. The issue of the shares underlying the GDRs being offered was authorized by the extraordinary shareholders meeting of Sitronics held on December 11, 2006, and the issuance of these shares was registered with the FSFM on January 18, 2007. As further described in "Registration of Placement Report," we must register a placement report with the FSFM with respect to these shares after the offering.
3. We have obtained all consents, approvals and authorizations in Russia in connection with the issue of the GDRs (except for the registration of the placement report with the FSFM which, in accordance with Russian law, will be applied for upon the completion of the placement).
4. Copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at the offices of Latham & Watkins, 99 Bishopsgate, London EC2M 3XF, United Kingdom from the date of publication of this prospectus to the admission:
   - the prospectus;
   - our charter (English translation);
   - the Deposit Agreements;
   - our financial statements as of and for the years ended December 31, 2003, 2004 and 2005, together with the auditors' report relating thereto; and
   - our unaudited financial statements as of September 30, 2006 and for the nine months then ended.
5. If definitive certificates are issued in exchange for the Master GDRs, Sitronics will appoint an agent in the United Kingdom.
6. There has been no significant change in the financial or trading position of the group since September 30, 2006, the end of the last financial period for which interim financial information has been published, except as set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments" on pages 56–57.
7. The following table sets forth the registered offices of our significant subsidiaries:

Subsidiary	Official Name	Registered Office
Intracom Telecom	INTRACOM S.A. TELECOM SOLUTIONS	19,7 Km Markopoulo Avenue, Peania Attiki 190 02, Greece
Intrarom	Intrarom S.A.	17 Fabrica de Glucoza Street, Sector 2, Bucharest 020331, Romania
Strom Telecom	SITRONICS Telecom Solutions, Czech Republic a.s. (formerly STROM telecom a.s.)	60 Mikhel'ska Street, Prague 4 140 00, Czech Republic
Tesla Tech	Tesla tech s.r.o.	Klashterni 1, Votice 251 01, Czech Republic
Sitronics Telecom Solutions	JSC «SITRONICS Telecom Solutions» (formerly Mediatel)	42a Khoroshevskoe Highway, Building 1, Moscow 123007, Russian Federation
Kvazar-Micro	Kvazar-Micro Corporation B.V.	Rokin 55, 1012 KK Amsterdam, the Netherlands

Subsidiary	Official Name	Registered Office
Kvazar-Micro International	Kvazar-Micro International Limited	Salisbury House, 31 Finsbury Circus, London EC2M 5SQ, United Kingdom
Kvazar-Micro Tekhno	CLOSED JOINT STOCK COMPANY «KVAZAR-MICRO TEKHNO»	1-3 Severo-Syretskaya Street, Kiev 04136, Ukraine
Kvazar-Micro.ru	Limited Liability Company «Kvazar-Micro.RU»	12 1st Zapadnyi Proezd, Building 1, Zelenograd 124460, Russian Federation
Mikron	Mikron Joint Stock Company	12 1st Zapadnyi Proezd, Building 1, Zelenograd 124460, Russian Federation
VZPP-Mikron	Closed Joint Stock Company «VZPP-Mikron»	119A Leninsky Prospect, Voronezh, Russian Federation
Smart Cards	Limited Liability Company «OOO Kompaniya Smart Karty»	12 1st Zapadnyi Proezd, Building 1, Zelenograd 124460, Russian Federation
Sitronics Consumer Electronics	Closed Joint Stock Company «Sitronics Consumer Electronics»	4 Yuzhnaya Promzona, Proezd 4806, Building 1, Zelenograd Russian Federation
Sitronics Ukraine	Limited Liability Company «SITRONICS UKRAINE»	5 Shulyavskaya Street, Kiev, Ukraine
Kvant	KVANT JSC	2 4th Zapadnyi Proezd, Building 3, Zelenograd 124460, Russian Federation
Elaks	Open Joint Stock Company «Elaks»	2 4th Zapadnyi Proezd, Building 1, Zelenograd 124460, Russian Federation
Elion	Open Joint Stock Company «Elion»	4 Panfilovsky Prospect, Zelenograd 124460, Russian Federation
Concel	Joint Stock Company «Concel»	8 3th Zapadnyi Proezd, Zelenograd 124460, Russian Federation

8. The GDRs are not denominated in any currency and have no nominal or par value. The offer price was determined based on the results of the bookbuilding exercise conducted by the Joint Global Coordinators. The results of the offering will be made public by us through a press release and notice to the Regulatory Information Service promptly upon the closing of the offering.

9. Holders of GDRs may contact Deutsche Bank Trust Company Americas, as Depositary for the GDRs (Attn: Broker Services, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, tel. +44 207 547 6500) with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at the Depositary's corporate trust office at 60 Wall Street, New York, New York 10005, United States (tel. +1 212 250 9100).

10. Set forth below are summaries of certain material contracts.

Material Supply, Service, Sale and Purchase Agreements:

The Agreement with Compania Nationala Lotteria Romana ("CNLR"), dated June 26, 1992, pursuant to which Intracom Telecom supplies CNLR with lottery equipment and related services.

The Systems Integrator Agreement with Cisco Systems International B.V., dated December 24, 1997, pursuant to which Cisco Systems supplies Intracom Telecom with Cisco products.

The Supply and Services Agreement with Intrarom S.A., dated April 23, 1998, pursuant to which Intrarom supplies Intracom Telecom with electronic equipment.

The Professional Implementation Services Agreement with Cisco Systems International B.V., dated July 17, 2001, pursuant to which Intracom Telecom provides Cisco with certain services.

The Agreement with Compania Nationala Lotteria Romana, dated September 1, 2003, pursuant to which Intracom Telecom supplies CNLR with video-lottery equipment and related services.

The Supply Agreement dated October 26, 2004, between Strom Telecom and MTS, pursuant to which Strom Telecom supplies MTS with its MEDIO product.

The Purchase Agreement with K-Telecom/PMF Telecommunications Holding Limited, dated February 4, 2005, pursuant to which Intracom Telecom supplies K-Telecom with GSM telecommunications equipment and related services.

The Frame Agreement with Intralot, dated July 28, 2005, pursuant to which Intracom Telecom supplies Intralot with terminals, spare parts and related services.

The Contract with Greek Organization of Football Prognostics ("OPAP"), dated July 28, 2005, pursuant to which Intracom Telecom provides OPAP with technical support services.

The Supply Agreement dated December 8, 2005, between Strom Telecom, ZAO Invest-Svyaz-Holding and OAO MGTS, pursuant to which Strom Telecom supplies Invest-Svyaz-Holding with telecommunications equipment and software which is subsequently leased by MGTS.

The Agreement with Cosmote, dated December 20, 2005, pursuant to which Intracom Telecom supplies Cosmote with telecommunications equipment.

The Supply Agreement dated December 21, 2005, between OOO Kompaniya Smart Karty and Giesecke & Devrient GmbH, pursuant to which Giesecke & Devrient supplies Smart Karty with equipment, software, installation services and spare parts.

The Subcontract with Intracom Middle East FZ LLC, dated December 22, 2005, pursuant to which Intracom Telecom supplies Intracom Middle East with a turn-key system.

The Supply Agreement dated December 23, 2005, between OOO Kompaniya Smart Karty and MTS, pursuant to which Smart Karty supplies MTS with SIM cards.

The Supply Agreement dated December 28, 2005, between OOO Kompaniya Smart Karty and UMC, pursuant to which OOO Kompaniya Smart Karty supplies individualized sets of cards and equipment.

The Supply Framework Agreement dated January 11, 2006, between OOO Kompaniya Smart Karty and Giesecke & Devrient GmbH, pursuant to which Giesecke & Devrient supplies Smart Karty with SIM cards and related products made according to Smart Karty's specifications.

The Supply Agreement dated February 15, 2006, between OOO Kompaniya Smart Karty and OOO Giesecke & Devrient Technology Ltd., pursuant to which Giesecke & Devrient supplies Smart Karty with SIM cards and related products made according to the Smart Karty's specifications.

The Contract dated March 22, 2006, between Intracom Telecom and Syrian Telecom pursuant to which Intracom Telecom supplies Syrian Telecom with telecommunications equipment.

The Agreement 2170 dated March 31, 2006, between Intracom Telecom and Hellenic Telecommunications Organization S.A. ("OTE"), pursuant to which Intracom Telecom provides OTE with technical support services.

The Agreement 2434 dated March 31, 2006, between Intracom Telecom and Hellenic Telecommunications Organization S.A., pursuant to which Intracom Telecom provides OTE with technical support services.

The Frame Agreement dated June 12, 2006, between Intracom Telecom and Ericsson AB, pursuant to which Intracom Telecom provides Ericsson with consulting services.

The Supply Agreement dated October 12, 2006, between Mikron and GUP Moskovsky Metropoliten, pursuant to which Mikron supplies Moskovsky Metropoliten with RFID metro fare cards.

Material Partnership, Distribution and Licensing Agreements:

The Distribution Agreement dated August 1, 2001, between Kvazar-Micro International Limited and Intel International B.V., pursuant to which Kvazar-Micro becomes a non-exclusive distributor of Intel hardware products and software in several countries, including the Russian Federation and Ukraine.

The Distribution Agreement dated March 21, 2003, between Kvazar-Micro International Limited and Western Digital Technologies, Inc., pursuant to which Kvazar-Micro becomes a non-exclusive distributor of Western Digital disk drive products and other such products as may from time to time be designated by Western Digital in several countries, including the Russian Federation and Ukraine.

The OEM Distribution Agreement dated April 1, 2003, between Kvazar-Micro International Limited and Microsoft Ireland Operations Limited, pursuant to which Kvazar-Micro becomes a non-exclusive distributor of the Microsoft System Builder Pack, consisting of software and hardware, within a specified territory.

The Licensing Agreement dated March 27, 2005, between Strom Telecom and MTS, pursuant to which Strom Telecom licenses software to MTS.

The Licensing Agreement dated September 29, 2005, between Mikron and Infineon Technologies AG, pursuant to which Infineon grants Mikron a non-exclusive, non-transferable license for the AFX packaging technology. The license is valid for use within the CIS and can be used by Mikron for its own production purposes as well as to provide manufacturing services to third parties.

The Distribution Agreement dated October 1, 2005, between Kvazar-Micro Tekhno and Microsoft Ireland Operations Limited, pursuant to which Kvazar-Micro is given a non-exclusive right to participate in certain channel programs and provide certain licensed hardware and software to resellers in Ukraine.

The Distribution Agreement dated November 1, 2005, between Kvazar-Micro International Limited and Microsoft Ireland Operations Limited, pursuant to which Kvazar-Micro is given a non-exclusive right to participate in certain channel programs and provide certain licensed hardware and software to resellers.

The Distribution Agreement dated December 15, 2005, between Kvazar-Micro Tekhno and Microsoft Ireland Operations Limited, pursuant to which Kvazar-Micro is given a non-exclusive right to provide licensed software to customers.

The Technology Transfer and Licensing Agreement dated September 29, 2006, between Mikron and STMicroelectronics N.V., pursuant to which STMicroelectronics provides Mikron with 0.18 micron EEPROM technology, including technical documentation, software and post-sale support.

The Alliance Agreement dated November 23, 2006, between JSC Sitronics and Cisco Systems International B.V., pursuant to which parties agree to jointly develop next generation IP infrastructure solutions, IPTV solutions and solutions and service packages focusing on specific technologies, geographies and industry verticals.

The Microsoft Channel Agreement dated November 30, 2006, between Intracom Telecom and Microsoft Ireland Operations Limited, pursuant to which Intracom Telecom becomes an authorized reseller of certain Microsoft products.

Other Material Agreements:

The Share Purchase Agreement dated June 21, 2006, between JSC Sitronics and Intracom Holdings, pursuant to which JSC Sitronics acquires a 51% interest in Intracom Telecom for a cash consideration of €120 million.

The Shareholders Agreement dated June 28, 2006, between Sitronics and Intracom Holdings, pursuant to which parties agree on the nature, scope and basic conditions that would govern their relationships as shareholders of Intracom Telecom.

The Subscription Agreement dated September 12, 2006, between JSC Sitronics and EBRD, pursuant to which EBRD acquires 293,476,990 shares of JSC Sitronics for a cash consideration of $80 million.

The Deposit Agreement dated as of December 14, 2006, between JSC Sitronics and Deutsche Bank Trust Company Americas, pursuant to which Deutsche Bank acts as a depositary for Rule 144A Global Depositary Receipts.

The Deposit Agreement dated as of December 14, 2006, between JSC Sitronics and Deutsche Bank Trust Company Americas, pursuant to which Deutsche Bank acts as a depositary for Regulation S Global Depositary Receipts.

The Underwriting Agreement dated February 7, 2007, between JSC Sitronics, Selling Shareholders and the Underwriters with respect to the shares and the GDRs being offered.

GLOSSARY

2.5G Network	Bridging the gap between 2G and 3G cellular service, 2.5G extends CDMA and GSM technologies with faster Web access, Multimedia Messaging Service (MMS), and a change in radio architecture to handle more bandwidth. 2.5G and 2G phones and networks are interoperable for basic calling and SMS capability.
2G (Second Generation) Network	Second-generation digital cellular service is the most widely used worldwide. It offers digital voice calling, limited Web-access capability, and Short Message Service (SMS). 2G cell phone standards include CDMA, TDMA, and GSM.
3G (Third Generation) Network	Third-generation mobile communications technology, as defined by the ITU, provides a global standard for cellular networks capable of handling live video calls and data access at broadband speeds. There are several flavors of 3G, including EDGE, CDMA 2000, and WCDMA/UMTS. The emerging global 3G standard is WCDMA/UMTS.
3GPP (Third Generation Partnership Project)	A collaboration agreement that was established in December 1998 by a number of telecommunications standards bodies. The objective of 3GPP is to make a globally applicable third generation mobile phone system specification.
ASIC (Application-Specific Integrated Circuit)	An integrated circuit customized for a particular use, rather than intended for general-purpose use.
ATM (Automated Teller Machine) card	A plastic card enabling the holder to access an automated teller machine to obtain cash and statements.
Backhauling	Backhauling is the connection of remote nodes to the network core. In the case of cellular networks, this means the connection of the remote base stations to the base station controller, and from there to the core network.
Broadband	A term used to describe data transmission rate of 256 kilobits per second or higher.
BSS (Business Support System)	A systems that perform management, inventory, engineering, planning, and repair functions for communications service providers and their networks.
BWA (Broadband Wireless Access)	A technology aimed at providing high-speed wireless access over a wide area from devices such as personal computers to data networks.
CAD (Computer Aided Design)	A designation of software tools used in the design of integrated circuits.
CDMA (Code Division Multiple Access)	A digital cellular technology that uses spread-spectrum techniques. Unlike competing systems, such as GSM, CDMA does not assign a specific frequency to each user. Instead, every channel

uses the full available spectrum. Individual conversations are encoded with a pseudo-random digital sequence.

CDN (Content Delivery Network) . . . . A system of computers networked together across the Internet that cooperate transparently to deliver content, especially large media content, to end users.

CKD (Complete-Knock Down) . . . . A complete kit needed to assemble a particular product. It is a common practice among car manufacturers to sell knocked down kits to their foreign affiliates in order to avoid high import taxes and/or receive tax preferences for providing local employment. A similar approach is often used in consumer electronics goods.

Cleanroom . . . . An area within a semiconductor fabrication facility in which the wafer fabrication takes place. The classification of a cleanroom relates to the maximum number of particles of contaminants per cubic foot within that room. For example, a class 100 cleanroom contains fewer than 100 particles of contaminants per cubic foot.

CMMI (Capability Maturity Model Integration) . . A collection of instructions that an organization can follow with the purpose of controlling its software development process. The CMMI ranks software development organizations according to a hierarchy of five process maturity levels. Each level ranks the development environment according to its capability of producing quality software. A set of standards is associated with each of the five levels.

CRM (Customer Relationship Management) . . . . A set of processes and supporting software that allows an organization to collect and leverage information on customer interactions with sales, marketing, and customer service departments.

CRT (Cathode Ray Tube) . . . . A cathode ray tube refers to any electronic vacuum tube employing a focused beam of electrons. Certain types of cathode ray tubes are used as displays for television, radar and oscilloscopes.

CTI (Computer Telephony Integration) . . . . The name given to the merger of traditional telecommunications equipment with computers and computer applications. The use of caller identification to retrieve customer information automatically from a database is an example of a CTI application.

DMA (Direct Memory Access) . . . . Transfer of data from a peripheral device, such as a hard disk drive, into memory without that data passing through the microprocessor. DMA transfers data into memory at high speeds with no processor overhead.

DMOS (Double-Diffused Metal-Oxide Semiconductor) . . . . A specific type of transistor designed to handle large powers. Compared to the other power semiconductor devices, its main advantages are high commutation speed and good efficiency at low voltages.

DMS (Defense Message System) . . . . All hardware, software, procedures, standards, facilities, and personnel used to exchange messages electronically between organizations and individuals in the U.S. Department of Defense.

DSL (Digital Subscriber Line) . . . . Public network technology that delivers high bandwidth over conventional copper wiring at limited distances.

DSLAM (Digital Subscriber Line Access Multiplexer) . . . . A device that connects many digital subscriber lines to a network by multiplexing the DSL traffic onto one or more network trunk lines.

DSTK (Dynamic SIM Tool Kit) . . . . This toolkit provides mechanisms that allow applications, existing in a SIM card, to interact and operate with any mobile equipment that supports the specific mechanisms required by the application. In other words, the toolkit extends the communication protocol between the SIM card and the mobile telephone. With this toolkit, the SIM card has a proactive role in the mobile telephone by initiating commands independently of the mobile telephone and network.

DVB-T (Digital Video Broadcasting-Terrestrial) . . The broadcasting of digital TV over the traditional terrestrial TV broadcasting network. It is a European standard using MPEG-2 for video compression and MPEG-2 and Dolby Digital for audio and is transmitted in a 6 to 8MHz channel of the traditional terrestrial broadcasting network.

DWDM (Dense Wavelength Division Multiplexing) . . . . An optical transmission of multiple signals over closely spaced wavelengths in the 1550 nanometer region.

EEPROM (Electronically Erasable Programmable Read-Only Memory) . . . . Nonvolatile memory chips that are programmed after they are manufactured and, if necessary, can be erased by some means and reprogrammed.

EMS (Electronics Manufacturing Services) Company . . . . A company that provides design, test, manufacture, distribute and return/repair services for electronic components and assembles for original equipment manufacturers.

EMV (Europay, MasterCard, Visa) . . . . A standard for interoperation of IC cards and IC capable point of sale terminals, for authenticating credit and debit card payments.

e-Passport . . . . A combined paper and electronic identity document that uses biometrics to authenticate the citizenship of travelers. The passport's critical information is stored on a computer chip, much like information stored on smart cards. See also "Smart Card."

ERP (Enterprise Resource Planning) .... A system that integrates all data and processes of an organization into a single unified system. A typical ERP system will use multiple components of computer software and hardware to achieve the integration. A key ingredient of most ERP systems is the use of a single, unified database to store data for the various system modules.

Fixed-Line Equipment .... Equipment designed specifically to serve the needs of telecommunications operators of wired (land) lines with fixed (as opposed to mobile) end-user location.

FMS (Fraud Management Systems) .... A system designed to detect, manage and assist in the investigation of fraudulent events in a telecommunication operator's network. These systems are typically considered to be part of Revenue Assurance systems. FMS identify abnormalities in data traffic patterns and report suspicious activity that suggest fraudulent or irregular activity.

GMSC (Gateway Mobile Switching Center) ..... A Gateway Mobile Services Switching Center is a node used to interconnect two networks. The GMSC relieves the transit traffic load from the MSC thereby lowering interconnection costs between MSCs with the overall benefit of generally optimizing network structure.

GSM (Global System for Mobile Communications) .... A digital mobile telecommunications system standardized by European Telecommunications Standards Institute, an independent standardization organization of the telecommunications industry, based on digital transmission and cellular network architecture with roaming in use throughout Europe and in various other countries in the 900 MHz (GSM 900) and 1800 MHz (GSM 1800) frequency bands.

High Frequency Transistor .... A transistor that operates on high (between 3 to 30 MHz) radio frequencies.

HLR (Home Location Register) .... A database that contains information about subscribers to a mobile network. The HLR registers subscribers for a particular service provider. The HLR stores "permanent" subscriber information (rather than temporary subscriber data), including the service profile, the location information, and the activity status of the mobile user.

IAS-W .... A digital wireless access system based on point-to-multipoint technology offering a wireless backbone with wireline or wireless last mile access. The system is designed for areas where access is primarily wireless, as prescribed by the geographical morphology and residential spread. The utilization of the system, offers a microwave primary network, while the last-mile subscriber connections are implemented either via copper cable or completely wireless.

IBAS . . . . Multiservice access platform purposely designed for the simultaneous provisioning of multiple Broadband (High Speed Internet, broadband TV, gaming) and Narrowband (POTS/ISDN telephony, Leased Line, Pair-Gain) services from the same, environmentally hardened chassis.

IC (Integrated Circuit) . . . . A miniaturized electronic circuit (consisting mainly of semiconductor devices, as well as passive components) which has been manufactured on the surface of a thin substrate of semiconductor material.

IMS (IP Multimedia Subsystem) . . . . A next-generation network for carriers developed by 3GPP that uses the IP protocol as its foundation and supports data, video, SIP-based voice over IP as well as packet-switched and circuit-switched phone systems. IMS was designed to integrate with the PSTN and provide traditional telephony services such as caller identification and local number portability.

IN (Intelligent Network) . . . . A public switched telephone network architecture which was created to provide a variety of advanced telephony services such as 800 number translation, local number portability, call forwarding, call screening and wireless integration.

IP (Internet Protocol) . . . . Protocol used in the Internet for communication among multiple networks.

IPTV . . . . A technology that allows to transmit video in IP packets and uses streaming video techniques to deliver scheduled TV programs or video-on-demand.

ISDN (Integrated Services Digital Network) . . . . . Communication protocol offered by telephone companies that permits telephone networks to carry data, voice, and other source traffic.

ISO (International Organization for Standardization) . . . . An international standard-setting body composed of representatives from national standards bodies. Founded on February 23, 1947, the organization produces world-wide industrial and commercial standards, the so-called ISO standards.

IT (Information Technologies) . . . . Telecommunications, computing and media technologies.

IVR (Interactive Voice Response) . . . . Systems that provide information in the form of recorded messages over telephone lines in response to user input in the form of spoken words. Examples include banks that allow to check balances from any telephone and automated stock quote systems.

LAN (Local Area Network) . . . . A short distance data transmission network designed to interconnect personal computers, workstations, minicomputers, file servers and other computing devices within a localized environment, for the purpose of sharing files, programs and various devices such as printers and high-speed modems. LANs may have a decentralized communications management, or include dedicated computers or file servers that provide a centralized source of shared files and programs.

LCD (Liquid Crystal Display) . . . . A thin, flat display device made up of any number of color or monochrome pixels arrayed in front of a light source or reflector. See also "TFT."

Microwave Frequency Transistors . . . . A transistor that operates on microwave or super high (between 3 to 30 GHz) frequencies.

MMS (Multimedia Messaging Service) . . . . An enhanced transmission service that enables graphics, video clips and sound files to be transmitted via mobile phones. Developed as part of the 3GPP project, MMS phones are generally backward compatible with short messaging service (SMS) systems.

MPLS (Multiple Protocol Labeling System) . . . . . Switching method that forwards IP traffic using a label. This label instructs the routers and the switches in the network where to forward the packets based on pre-established IP routing information.

MSAN (Multi-Service Access Nodes) . . . . Multi-Service Access Nodes are platforms that allow an IP based NGN core network to inter-operate with all the different access technologies (POTS, ISDN, ADSL, SDH, etc.).

MSC (Mobile Switching Center) . . . . Provides telephony switching services and controls calls between telephone and data systems.

Multiplexing . . . . A technique used to send multiple signals over the same channel simultaneously.

NGN (Next Generation Networks) . . . . A broad term for a certain kind of emerging computer network architectures and technologies. It generally describes networks that natively encompass data and voice communications, as well as additional media such as video. Also referred to as Next Generation Network Architecture.

NTMS (Network Terminals Management System) . An application that provides operators with remote access to network terminating units.

OSS (Operation Support System) . . . . In telecommunications, processes and teams that monitor the underlying networks. OSS predominantly looks at functional and non-functional requirements of solutions/systems. Monitoring, end-to-end design, and error handling tend to be the main areas of work for OSS applications.

OTA (Over-the-Air) Platform . . . . OTA platform manages a SIM card remotely (Over-the-Air) and changes its content after the card has been issued. This platform allows the subscriber to manage mobile content such as stock quotes and weather forecasts through their mobile phones or through the internet.

Packaged Integrated Circuit . . . . A chip die wired and assembled into the package ready for use (mounting on the printing board). There are hundreds of types of packages with several compounds, number of pins, geometry, etc.

PBX (Private Branch Exchange) . . . . Digital or analog telephone switchboard located on the subscriber premises and used to connect private and public telephone networks.

PDH (Plesiochronous Digital Hierarchy) . . . . A technique used to compress and transmit digital voices traffic more efficiently over a copper wire connection.

PSTN (Public Switched Telephone Network) . . . . . General term referring to the variety of telephone networks and services in place worldwide.

RA (Revenue Assurance) . . . . A practice to ensure a telecommunication operator's systems and processes maximize revenue, principally by preventing or minimizing the loss of revenues due to unbilled or under-billed services, late bill collection or fraudulent use of services.

Radio Access . . . . Connection to a telecommunications network using radio signals.

RBT (Ring Back Tone) . . . . A distinct ring tone received by the calling party during call set up, this may be personalized by the receiving party to transmit tone, music, messages or advertisements.

RFID (Radio Frequency Identification) . . . . A data collection technology that uses electronic tags for storing data. The tag is made up of an RFID chip attached to an antenna.

Schottky Diode . . . . A semiconductor diode with a low forward voltage drop and a very fast switching action.

SDH (Synchronous Digital Hierarchy) . . . . European standard that defines a set of rate and format standards that are transmitted using optical signals over fiber-optic media. The transmission rates range from 155.52 Mbps to 2.5 Gbps.

SDP (Session Data Protocol) . . . . A protocol intended for describing multimedia sessions for the purposes of session announcement, session invitation, and other forms of multimedia session initiation.

SIM (Subscriber Identity Module) . . . . An electronic card inserted into a mobile handset that identifies the subscriber to the network. The SIM card contains the personal identification number of the subscriber and identifies the subscriber's network.

SIP (Session Initiation Protocol) . . . . An application-layer control protocol that can establish, modify, and terminate multimedia sessions (conferences) such as Internet telephony calls.

SKD (Semi-Knock Down)	An incomplete kit needed to assemble a particular product. See also "CKD."
Smart Card	A pocket-sized card with embedded integrated circuits. There are usually two types of smart cards: memory card and microprocessor card. Memory cards contain only non-volatile memory storage components, and perhaps some specific security logic. Microprocessor cards contain memory and microprocessor components.
SMS (Short Messaging Service)	A text message service that enables short messages of generally no more than 140-160 characters in length to be sent and transmitted from a mobile phone. SMS messages travel to the mobile phone over the system's control channel, which is separate from the voice channel.
SMS-C (Short Messaging Service Center)	Short messages are stored and forwarded at SMS centers, which allows to retrieve messages later if the subscriber is not immediately available to receive them. See also SMS.
TDM (Time-Division Multiplexing)	A technology that allows multiple digital signals (or analog signals carrying digital data) to be carried on a single transmission path by interleaving portions of each signal in time. Interleaving can be done at bits or blocks of bytes. This enables digitally encoded speech signals to be transmitted and switched optimally within a circuit-switched network
TETRA (Terrestrial Trunked Radio)	TETRA is a radio based telecommunications standard targeted primarily at the mobile radio needs of public safety groups (such as police and fire departments), utility companies, etc. for voice and data communications services.
TFT (Thin Film Transistor)	A special kind of field effect transistor made by depositing thin films for the metallic contacts, semiconductor active layer, and dielectric layer. The best known application of thin-film transistors is in TFT LCDs, a variant of LCD technology. Transistors are embedded within the panel itself, reducing crosstalk between pixels and improving image stability.
Triple Play	A marketing term for the provisioning of the three services: high-speed Internet, television and telephone service over a single broadband connection.
UMTS (Universal Mobile Telephone Service)	A 3G mobile wireless telecommunications system whose standards are being developed by the Third Generation Partnership Project (3GPP).
USSD (Unstructured Supplementary Services Data)	A messaging function in GSM-based mobile phones. Unlike regular text messages, USSD messages travel over GSM signaling channels and are used to query information and trigger services.

VAS (Value-Added Services) . . . . Value-added services have come to mean additional services provided by the telecommunication network operators above and beyond voice services.

VHDL (VHSIC Hardware Description Language) . A hardware description language (HDL) used to design electronic systems at the component, board and system level. VHDL allows models to be developed at a very high level of abstraction.

VoIP (Voice over Internet Protocol) . . . . Voice traffic routed through the Internet via packet-switched technology. Because a packet-switched transmission does not require engagement of an end-to-end connection for the entire duration of the call, Internet voice telephony is typically less expensive than ordinary voice telephony.

WAN (Wide Area Network) . . . . A computer network covering a broad geographical area.

WAP (Wireless Application Protocol) . . . . A protocol for wireless communications that makes it possible to create advanced telecommunications services and to access Internet pages from a mobile telephone.

WCDMA . . . . A technology for wideband digital radio communications of Internet, multimedia, video and other capacity-demanding applications.

WiBAS . . . . A product family composed of broadband wireless point-to-multipoint systems based on 802.16 technology. Packet switching, adaptive modulation, adaptive power control, high spectral efficiency, forward error correction and security are the core of this technology.

WiMAX (World Interoperability for Microwave Access) . . . . An organization founded in 2001 that promotes the IEEE 802.16 wireless broadband standard and provides certification for compliant devices. WiMAX is designed to extend local Wi-Fi networks across greater distances as well as to provide last mile connectivity to an ISP or other carrier many miles away. In addition, mobile WiMAX offers a voice and higher-speed data alternative to the cellular networks.

Wireless Access . . . . A technology aimed at providing high-speed wireless access over a wide area from devices such as personal computers to data networks.

Wireline Access . . . . A technology aimed at transmission of data and voice over wired lines.

xDSL . . . . Group term used to refer to ADSL, HDSL, SDSL and VDSL. All are emerging digital technologies using the existing copper infrastructure provided by the telephone companies. xDSL is a high-speed alternative to ISDN.

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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 subsidiaries (collectively—"the Group") as of December 31, 2005, 2004 and 2003, 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 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 financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2005, 2004 and 2003, and the consolidated 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 discussed in Note 27, the accompanying financial statements for the years ended December 31, 2005, 2004 and 2003 have been restated.

/s/ ZAO Deloitte & Touche CIS

January 4, 2007
Moscow, Russia

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2005, 2004 AND 2003 (RESTATED)

(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2005 (As restated, see Note 27)	2004 (As restated, see Note 27)	2003 (As restated, see Note 27)
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	4	$ 83,359	$ 39,685	$ 4,841
Short-term investments	5	10,397	14,303	419
Trade receivables, net	6	158,855	45,536	20,415
Other receivables and prepaid expenses, net	7	56,880	35,959	14,480
Inventories and spare parts	8	113,917	82,021	24,058
Deferred tax assets, current portion	21	4,785	4,325	3,100
Total current assets		428,193	221,829	67,313
Property, plant and equipment, net	9	94,947	53,000	44,358
Intangible assets, net	10	19,734	15,689	500
Long-term investments	11	865	1,457	12,410
Long-term trade receivables	12	14,575	—	—
Prepaid rent	13	2,230	3,297	—
Restricted cash	14	2,105	2,105	—
Deferred tax assets	21	3,441	3,666	—
TOTAL ASSETS		**$566,090**	**$301,043**	**$124,581**

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2005, 2004 AND 2003 (RESTATED) (Continued)
(Amounts in thousands of U.S. dollars, except share amounts)

	Notes	2005 (As restated, see Note 27)	2004 (As restated, see Note 27)	2003 (As restated, see Note 27)
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	15	$104,488	$ 37,726	$ 13,891
Taxes payable		40,557	9,715	7,495
Accrued expenses and other current liabilities	16	105,909	67,049	17,514
Short-term loans and notes payable	17	105,062	69,021	28,686
Current portion of long-term debt	18	925	8,606	3,107
Deferred tax liabilities, current portion	21	664	910	1,220
Total current liabilities		357,605	193,027	71,913
LONG-TERM LIABILITIES:				
Capital lease obligations	19	1,605	863	1,463
Long-term debt	18	6,125	7,954	23,943
Deferred tax liabilities	21	9,010	6,920	1,794
Total long-term liabilities		16,740	15,737	27,200
COMMITMENTS AND CONTINGENCIES	24	—	—	—
TOTAL LIABILITIES		374,345	208,764	99,113
MINORITY INTERESTS		28,926	27,167	1,856
SHAREHOLDERS' EQUITY:				
Share capital (1,886,771,000 shares authorized and issued as of December 31, 2005, 2004 and 2003 respectively, with par value of 1 ruble)	20	59,213	59,213	59,213
Additional paid-in capital	20	76,130	43,862	14,725
Retained earnings/(accumulated deficit)		28,490	(40,737)	(52,087)
Accumulated other comprehensive (loss)/income		(1,014)	2,774	1,761
TOTAL SHAREHOLDERS' EQUITY		162,819	65,112	23,612
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$566,090**	**$301,043**	**$124,581**

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003 (RESTATED)

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

	Notes	Year ended December 31, 2005 (As restated, see Note 27)	2004 (As restated, see Note 27)	2003 (As restated, see Note 27)
Revenues		$ 952,569	$ 473,592	$ 99,055
Cost of sales, exclusive of depreciation and amortization shown separately below		(715,634)	(397,263)	(55,774)
Research and development expenses		(23,644)	(9,246)	(7,828)
Selling, general and administrative expenses		(54,755)	(33,873)	(19,831)
Depreciation and amortization		(11,476)	(6,491)	(3,568)
Other operating expenses, net		(4,819)	(652)	(1,997)
OPERATING INCOME		142,241	26,067	10,057
Interest income		872	197	—
Interest expense, net of amounts capitalized		(9,810)	(7,120)	(2,772)
Foreign currency transactions (loss)/gain		(2,914)	233	1,404
Income before income tax and minority interests		130,389	19,377	8,689
Income tax expense	21	(35,147)	(3,234)	(2,926)
Income before minority interests		95,242	16,143	5,763
Minority interests		(26,015)	(4,793)	(740)
NET INCOME		**69,227**	**11,350**	**5,023**
Translation adjustment, net of minority interests of $(380), $768 and $53, respectively, and income tax of nil		(3,788)	1,013	1,761
Comprehensive income		$ 65,439	$ 12,363	$ 6,784
Weighted average number of common shares outstanding	2	1,886,771,000	1,886,771,000	1,886,771,000
Earnings per share, basic and diluted, USD	2	0.037	0.006	0.003

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003 (RESTATED)

(Amounts in thousands of U.S. dollars)

	Year ended December 31,		
	2005	2004	2003
	(As restated, see Note 27)	(As restated, see Note 27)	(As restated, see Note 27)
OPERATING ACTIVITIES:			
Net income	$ 69,227	$ 11,350	$ 5,023
Adjustments to reconcile net income to net cash provided by/(used in) operations:			
Depreciation and amortization charge	11,476	6,491	3,568
Minority interests	26,015	4,793	740
Non-cash compensation to employees	—	1,478	—
Gain from disposal of property, plant and equipment	(2,389)	(2,048)	—
Deferred income tax (benefit)/expense	(314)	(4,566)	386
Doubtful debt (recovery)/expense	(2,296)	(2,762)	1,276
Changes in operating assets and liabilities:			
Trade receivables	(136,186)	(15,443)	(3,945)
Other receivables and prepaid expenses	(19,300)	(10,388)	(7,074)
Inventories and spare parts	(32,114)	(39,041)	(8,819)
Prepaid rent	1,067	(3,297)	—
Accounts payable	64,023	4,080	(2,405)
Taxes payable	29,985	1,277	(1,746)
Accrued expenses and other current liabilities	49,411	45,081	5,915
Net cash provided by/(used in) operating activities	58,605	(2,995)	(7,081)
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(40,642)	(6,608)	(5,618)
Proceeds from disposals of property, plant and equipment	2,546	2,223	—
Purchases of intangible assets	(6,752)	(495)	—
Purchases of businesses, net of cash acquired	(28,658)	11,195	—
Proceeds from disposal of an interest in a subsidiary	—	2,000	—
Purchases of short-term investments	(4,414)	(6,796)	—
Purchases of long-term investments	(194)	—	(2,088)
Proceeds from sales of short-term investments	8,319	—	—
Proceeds from sales of long-term investments	—	10,567	—
Net cash (used in)/provided by investing activities	$ (69,795)	$ 12,086	$(7,706)

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003 (RESTATED) (Continued)

(Amounts in thousands of U.S. dollars)

	Year ended December 31,		
	2005 (As restated, see Note 27)	2004 (As restated, see Note 27)	2003 (As restated, see Note 27)
FINANCING ACTIVITIES:			
Contributions of the controlling shareholder	$ 56,766	—	—
Distributions to the controlling shareholder	(24,498)	—	—
Proceeds from short-term borrowings	92,250	$ 45,888	$ 4,943
Principal payments on short-term borrowings	(64,488)	—	—
Proceeds from long-term borrowings	10,679	7,486	19,678
Principal payments on long-term borrowings	(12,800)	(27,541)	(6,292)
Principal payments on capital lease obligations	(1,193)	(600)	(1,071)
Net cash provided by financing activities	56,716	25,233	17,258
Effects of foreign currency translation on cash and cash equivalents	(1,852)	520	275
INCREASE IN CASH AND CASH EQUIVALENTS	43,674	34,844	2,746
CASH AND CASH EQUIVALENTS, beginning of the year	39,685	4,841	2,095
CASH AND CASH EQUIVALENTS, end of the year	$ 83,359	$ 39,685	$ 4,841
CASH PAID DURING THE YEAR FOR:			
Interest, net of amounts capitalized	$ (9,201)	$ (8,241)	$ (1,651)
Income taxes	(7,925)	(4,432)	(3,132)
NON-CASH ITEMS:			
Equipment acquired under capital lease	2,500	1,104	2,191
Property contributed to share capital of a subsidiary	—	—	1,927

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

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003 (RESTATED)

(Amounts in thousands of U.S. dollars)

	Share capital	Additional paid-in capital	(Accumulated deficit)/ retained earnings	Accumulated other comprehensive income/(loss)	Total
Balances at January 1, 2003 (as restated, see Note 27)	**$59,213**	**$14,725**	**$(57,110)**	**$ —**	**$ 16,828**
Translation adjustment, net of minority interests of $53 and income tax of nil	—	—	—	1,761	1,761
Net income	—	—	5,023	—	5,023
Balances at December 31, 2003 (as restated, see Note 27)	**$59,213**	**$14,725**	**$(52,087)**	**$ 1,761**	**$ 23,612**
Contributions of the controlling shareholder (Note 3)	—	29,137	—	—	29,137
Translation adjustment, net of minority interests of $768 and income tax of nil	—	—	—	1,013	1,013
Net income	—	—	11,350	—	11,350
Balances at December 31, 2004 (as restated, see Note 27)	**$59,213**	**$43,862**	**$(40,737)**	**$ 2,774**	**$ 65,112**
Contributions of the controlling shareholder (Note 20)	—	56,766	—	—	56,766
Distributions to the controlling shareholder (Note 3)	—	(24,498)	—	—	(24,498)
Translation adjustment, net of minority interests of $(380) and income tax of nil	—	—	—	(3,788)	(3,788)
Net income	—	—	69,227	—	69,227
Balances at December 31, 2005 (as restated, see Note 27)	**$59,213**	**$76,130**	**$ 28,490**	**$(1,014)**	**$162,819**

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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

The Group operates along five operating segments:

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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, 2005, 2004 and 2003 were as follows:

Operating entities	Effective ownership interest as of December 31,			Voting interest as of December 31,		
	2005	2004	2003	2005	2004	2003
Telecommunication Solutions segment:						
Strom Telecom (Czech Republic)	100%	67%	100%	100%	67%	100%
Tesla tech (Czech Republic)	100%(1)	34%(1)	51%	100%	51%	51%
Mediatel (Russia)	100%	100%	72%(2)	100%	100%	100%
Information Technologies Solutions segment:						
Kvazar-Micro Corporation (Netherlands)	51%	51%(2)	—	51%	51%	—
Kvazar-Micro International (United Kingdom)	51%(1)	51%(1)(2)	—	100%	100%	—
Kvazar-Micro Techno (Ukraine)	51%(1)	51%(1)(2)	—	100%	100%	—
Factory Kvazar-Micro (Ukraine)	51%(1)	51%(1)(2)	—	100%	100%	—
Kvazar-Micro.ru (Russia)	51%(1)	51%(1)(2)	—	100%	100%	—
Microelectronic Solutions segment						
Mikron (Russia)	77%	77%	71%	77%	77%	71%
VZPP-Mikron (Russia)	51%	51%	51%	51%	51%	51%
Smart Cards (Russia)	65%	—	—	65%	—	—
Consumer Electronics segment						
SITRONICS Consumer Electronics (Russia)	100%	100%	100%	100%	100%	100%
SITRONICS Ukraine (Ukraine)	100%	—	—	100%	—	—
Electronics Manufacturing Services segment						
Kvant (Russia)	78%	31%	—	88%	35%	—
Elaks (Russia)	82%	80%	80%	82%	80%	80%
Elion (Russia)	75%	75%	73%	90%	90%	88%
Concel (Russia)	100%	100%	100%	100%	100%	100%

(1) Including indirect ownership

(2) Including interests held by Sistema

Accounts of newly-consolidated entities have been included in the Group's financial statements from the beginning of the year, when control was acquired, with pre-acquisition earnings of an interest purchased during the year included in minority interest 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 three-year period ended December 31, 2005.

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

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

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

Management has determined that the functional currencies of the Group's significant subsidiaries for the years ended December 31, 2005, 2004 and 2003 are as follows:

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

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

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

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

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

The estimation of the Group's fair value of financial instruments with subsidiaries and affiliates of Sistema is not practicable based on the related party nature of underlying transactions. The estimated fair value of short-term financial instruments and long-term variable rate financial instruments with third parties as of December 31, 2005 approximated their carrying value as reflected in the consolidated balance sheet.

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

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

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

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

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

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

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

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

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

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

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

Intangible Assets—Intangible assets represent costs of purchased and internally developed software, costs of customer contracts and the related customer relationships, trademarks and licenses. The intangible assets acquired through business combinations accounted for by the purchase method, were assigned fair values at the acquisition date. Other acquired intangible assets are recorded at cost.

Costs of developing computer software products incurred by the Group are accounted for in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or

Otherwise Marketed.” Accordingly, software development costs incurred subsequent to the determination of technological feasibility and marketability of a software product are capitalized. Technological feasibility is established when the Group has completed all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features, and technical performance requirements.

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

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

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

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

The Group also purchases promissory notes from and originates loans to other entities (primarily to other subsidiaries of Sistema) for investing purposes. These notes and loans are carried at amortized cost.

Impairment of Long-lived Assets—The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Management does not believe any indicators of impairment occurred relating to the Group’s investments in long-lived assets during the three years period ended December 31, 2005.

Leasing Arrangements—The Group accounts for leases, that include leases of equipment and vehicles, as well as office premises, based on the requirements of SFAS No. 13, “Accounting for Leases.”

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

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

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

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

Telecommunication Solutions segment:

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

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

Information Technologies Solutions segment:

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

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

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

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

Microelectronic Solutions, Consumer Electronics and Electronics Manufacturing Services segments:

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

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

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

***Research and Development Costs*—**Research and development ("R&D") costs are fully charged to the consolidated statements of operations when incurred. Research and development costs incurred between the date on which technological feasibility is established and when the related product is available-for-sale are capitalized. For the years ended December 31, 2005, 2004 and 2003, R&D expenses totaled $23.6 million, $9.2 million and $7.8 million, respectively.

***Income Taxes*—**Income taxes for the Group's subsidiaries have been computed in accordance with the respective local laws. Income tax rate enacted as of December 31, 2005 in the RF equals 24%, Ukraine—25%, Czech Republic—26% (24% starting from January 1, 2006).

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

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

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% (from 35.6% to 2% before January 1, 2005) 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% (from 28% to 2% prior to January 1, 2005), respectively, depending on the annual gross salary of each employee. The contributions are expensed as incurred.

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

***Borrowing Costs*—**Borrowing costs are recognized as an expense in the period in which they were 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, 2005, 2004 and 2003 were not significant.

***Advertising Costs*—**Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2005, 2004 and 2003 were $4.9 million, $3.9 million and $1.2 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, 2005, 2004 and 2003.

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

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

***Recently Adopted Accounting Pronouncements*—**In March 2005, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143.” This Interpretation clarifies that the term “conditional asset retirement obligation” as used in FASB Statement No. 143, “Accounting for Asset Retirement Obligations”, refers to a legal obligation to perform an asset retirement activity, in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. Interpretation No. 47 became effective for the Group in the year ended December 31, 2005. The adoption of Interpretation No. 47 did not have a material impact on the Group’s financial position or results of operations.

***New Accounting Pronouncements*—**In May 2005, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 154, “Accounting Changes and Error Corrections”, which replaces APB Opinion No. 20, “Accounting Changes” and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements”. SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition provisions. SFAS No. 154 requires retrospective application to the prior periods’ financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement is effective for the Group from January 1, 2006.

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

In October 2005, the FASB issued FASB Staff Position (“FSP”) FAS 13-1, “Accounting for Rental Costs Incurred during a Construction Period”. Under the provisions of FSP FAS 13-1, lessees may not capitalize rental costs incurred on building or ground operating leases during a construction period. Instead, rental costs should be expensed on a straight-line basis starting at the beginning of the lease term, i.e., when the lessee takes possession of or is given control of the leased property. The provisions of FSP FAS 13-1 are effective for the Group for the year ending December 31, 2006. The adoption of FSP FAS 13-1 did not have a material impact on the Group’s financial position and results of operations.

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

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

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

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

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

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

3. ACQUISITIONS

***Kvazar-Micro*—**In July 2004, Sistema purchased 51.0% of Kvazar-Micro for a cash consideration of $28.0 million, including a contribution to the share capital of Kvazar-Micro of $18.0 million. Control over Kvazar-Micro's operations was obtained by the Group starting from this date. Assets and liabilities of Kvazar-Micro have been recorded by the Group at their fair values as of the date of acquisition by Sistema.

The purchase price allocation was as follows:

Current assets	$ 68,718
Non-current assets	3,635
Trademarks	3,211
Customer contracts and the related customer relationships	13,864
Current liabilities	(43,485)
Non-current liabilities	(4,068)
Minority interest	(13,875)
Purchase price	**$ 28,000**

Customer contracts and the related customer relationships acquired are amortized over the remaining contractual terms of approximately 36 months. Trademarks have an unlimited contractual life and are reviewed, at least annually, for impairment.

Through the acquisition of Kvazar-Micro, the Group added Information Technologies Solutions segment to its operations.

In October 2005, the Group purchased 51% stake in Kvazar-Micro from Sistema for cash consideration of $22.6 million. The assets and liabilities of Kvazar-Micro transferred to the Group are recorded in these financial statements at the historical cost of Sistema. The transaction resulted in a decrease of the Group's additional paid-in capital (as a result of a partial return of the controlling shareholder's contribution in the same amount).

***Strom Telecom*—**In July 2004, the Group entered into an agreement with a party controlled by management of Strom Telecom, for the disposal of 33% of the common shares of Strom Telecom for a cash consideration of $2.0 million. At the date of the transaction, the fair value of these shares was determined by the Group's management to be approximately equal to the book value. The Group has recorded the difference of $1.5 million between the fair value of the stake and the consideration received as a compensation to management.

In July 2005, the Group re-acquired this 33% stake in Strom Telecom for $19.8 million. The fair value of the acquired net assets as of the date of this transaction was determined to be in excess of the purchase price. The allocation of purchase price decreased cost of the PP&E by $3.9 million.

***Mediatel*—**In January 2004, the Group entered into an agreement with MGTS, a subsidiary of Sistema, in respect of corporate governance of Mediatel (the Group owned 49% of Mediatel voting common shares, with the remaining shares owned by MGTS). The agreement provided that control over operating and financial policies of Mediatel was transferred to the Group.

In December 2005, the Group purchased 51% stake in Mediatel from MGTS for cash consideration of $1.9 million, increasing the Group's voting power in Mediatel to 100%. The assets and liabilities of Mediatel transferred to the Group are recorded in these financial statements at the historical cost of MGTS. The transaction resulted in a decrease of the Group's additional paid-in capital in the same amount. In 2006, Mediatel was renamed to SITRONICS Telecom Solutions.

Kvant—In May 2005, the Group acquired an additional 53% stake in Kvant, a manufacturer of consumer electronics devices located in Zelenograd, for a total consideration of $7.2 million, increasing the Group's voting power in Kvant to 88%. The Group has obtained control over Kvant's operations and started to utilize its facilities to enhance operations of its consumer electronics segment. The acquisition was accounted for using the purchase method of accounting. The excess of purchase price over the respective share of Kvant's net assets comprising $7.8 million was allocated to the cost of the manufacturing plant.

Smart Cards—In May 2005, the Group entered into an agreement with Giesecke & Devrient GmbH ("G&D") concerning the foundation and operation of Smart Cards, where the Group owns 65% interest. The principal activities of the newly established subsidiary include sales and marketing of smart cards and smart card related solutions, embedding of chips, personalization and mailing (lettershop) of chip-cards, for the telecommunication industry and government sectors.

In conjunction with this transaction, the Group is required to repurchase minority shares of Smart Cards in the event of breach of certain conditions set by the foundation agreement, including, but not limited to achieving of sales targets in the years ended December 31, 2006 and 2007. In addition, the Group has a put option to sell its share in Smart Cards to G&D, which is exercisable in the event G&D breaches its obligations set by the foundation agreement. The fair values of these options as of December 31, 2005 was not significant.

Both put option price and the contingent obligation to repurchase minority stake in Smart Cards have been determined as the initial contribution of the parties into the share capital of Smart Cards plus 10% per annum. As of December 31, 2005, both parties were in compliance with the foundation agreement's covenants.

SITRONICS Ukraine—In July 2005, the Group established à subsidiary for marketing and distribution of consumer electronics products in Ukraine with a share capital of $50 thousand.

Vostochny Veter—In December 2005, the Group acquired a 51% stake in Vostochny Veter, a developer of infocommunication solutions, for a cash consideration of $1.5 million. The excess of purchase price over the respective share of Vostochny Veter's net assets was allocated to the cost of Vostochny Veter's proprietary software.

If the additions of Kvazar-Micro, Kvant and Vostochny Veter to the Group had occurred on January 1, 2004, the effect on the Group's revenue, net income and EPS would not be significant.

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2005, 2004 and 2003 comprised the following:

	2005	(000's) 2004	2003
EUR bank deposits	$ 365	$ 1,190	$ 473
USD current accounts with subsidiary of Sistema:			
Moscow Bank for Reconstruction and Development (MBRD)	16,718	7,049	1,477
Current accounts with third parties:			
USD current accounts	42,186	29,604	—
RUB current accounts	13,125	613	—
EUR current accounts	5,442	581	—
CZK current accounts	3,694	38	1,261
Other	1,580	—	1,154
Cash on hand	249	610	476
Total	**$83,359**	**$39,685**	**$4,841**

5. SHORT-TERM INVESTMENTS

USD and RUB denominated short-term investments as of December 31, 2005, 2004 and 2003 comprised the following:

	Annual interest rate	Maturity date	2005	(000's) 2004	2003
Bank deposits with Sistema affiliate East-West United Bank	—	—	—	$ 7,000	—
Promissory notes of Sistema and subsidiaries	various	various	$ 9,308	5,940	—
Other	various	various	1,089	1,363	$419
Total short-term investments			**$10,397**	**$14,303**	**$419**

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

6. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful accounts, as of December 31, 2005, 2004 and 2003 comprised the following:

	2005	(000's) 2004	2003
Trade receivables	$163,041	$50,004	$25,078
Less: provision for doubtful accounts	(4,186)	(4,468)	(4,663)
Total	**$158,855**	**$45,536**	**$20,415**

Included in trade receivables as of December 31, 2005, 2004 and 2003 are receivables for services provided and products shipped to subsidiaries and affiliates of Sistema in the amounts of $56.9 million, $31.0 million and $5.3 million, respectively (Note 23). Management anticipates no losses in respect of receivables from these entities.

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

7. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

Other receivables and prepaid expenses, net of provision for doubtful accounts, as of December 31, 2005, 2004 and 2003 comprised the following:

	2005	(000's) 2004	2003
Advances to suppliers	$23,896	$14,158	$ 5,453
Recoverable VAT	13,478	8,550	7,395
Other taxes prepaid	7,533	7,058	1,080
Prepaid expenses	5,158	1,584	448
Loans to employees	1,353	1,000	—
Other	7,045	7,206	3,961
Less: provision for doubtful accounts	(1,583)	(3,597)	(3,857)
Total	**$56,880**	**$35,959**	**$14,480**

8. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of December 31, 2005, 2004 and 2003 comprised the following:

	2005	(000's) 2004	2003
Raw materials and spare parts	$ 20,994	$13,762	$ 3,470
Work-in-progress	28,030	16,188	13,994
Finished goods and goods for resale	64,893	52,071	6,594
Total	**$113,917**	**$82,021**	**$24,058**

As of December 31, 2005, 2004 and 2003, inventory with the carrying amount of $27.3 million, $25.5 million and nil, respectively, was pledged to Intel (Note 15).

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2005, 2004 and 2003 comprised the following:

	2005	(000's) 2004	2003
Land	$ 1,377	$ 1,377	$ 888
Buildings and leasehold improvements	58,908	35,937	31,399
Plant, machinery and equipment (including leased vehicles and equipment of $7,635, $5,068 and $3,964, respectively)	56,590	40,333	35,167
Construction in progress and equipment for installation	12,646	6,269	5,727
	129,521	83,916	73,181
Less: accumulated depreciation (including leased vehicles and equipment of $2,078, $2,468 and $1,814, respectively)	(34,574)	(30,916)	(28,823)
Total	**$ 94,947**	**$ 53,000**	**$ 44,358**

Depreciation expense for property, plant and equipment for the years ended December 31, 2005, 2004 and 2003 comprised $6.4 million, $3.6 million and $3.4 million, respectively.

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

10. INTANGIBLE ASSETS, NET

Intangible assets, net of accumulated amortization, as of December 31, 2005, 2004 and 2003 comprised the following:

	2005			(000's) 2004			2003		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Finite-life intangible assets:									
Customer contracts and the related customers relationships	$13,864	$(6,921)	$ 6,943	$13,864	$(2,301)	$11,563	—	—	—
Software costs	9,366	(1,276)	8,090	1,715	(800)	915	$705	$(205)	$500
Licenses	1,490	—	1,490	—	—	—	—	—	—
	24,720	**(8,197)**	**16,523**	**15,579**	**(3,101)**	**12,478**	**705**	**(205)**	**500**
Indefinite-life intangible assets:									
Trademarks	3,211	—	3,211	3,211	—	3,211	—	—	—
Total intangible assets	**$27,931**	**$(8,197)**	**$19,734**	**$18,790**	**$(3,101)**	**$15,689**	**$705**	**$(205)**	**$500**

Amortization expense for the years ended December 31, 2005, 2004 and 2003 comprised $5.1 million, $2.9 million and $0.2 million, respectively.

Based on the finite-life intangible assets existing as of December 31, 2005, the estimated amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

	(000's)
2006	$ 6,049
2007	3,697
2008	1,307
2009	1,232
2010	1,172
Thereafter	3,066
	$16,523

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, 2005, 2004 and 2003 comprised the following:

	2005	(000's) 2004	2003
Voting common shares of Angstrem (11%)	$655	$ 673	$ 439
Voting common shares of Angstrem-M (11%)	210	203	196
Voting common shares of MBRD (7%)	—	—	9,157
MBRD promissory notes	—	—	2,037
Voting common shares of Kvant (35%)	—	581	581
Total long-term investments	**$865**	**$1,457**	**$12,410**

In May 2005, the Group increased its ownership in Kvant to 88%. As a result, the Group obtained control over Kvant's operations (Note 3).

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

12. LONG-TERM TRADE RECEIVABLES

Long-term trade receivables as of December 31, 2005 comprised receivables from Sistema affiliates maturing in October 2007 (Note 23).

13. PREPAID RENT

In July 2004, Kvazar-Micro.ru entered into a long-term agreement with Sistema for an operating lease of office premises in Moscow for the period of 86 months. The short-term portion of the prepaid rent is included in other receivables and prepaid expenses. See also Note 24.

14. RESTRICTED CASH

Restricted cash as of December 31, 2005 and 2004 represents three deposits placed by Kvazar-Micro in ING Bank to secure the guarantees issued by the bank in favor of certain IT vendors, including Intel (Note 15). Although all these deposits mature not later than December 31, 2005, management intends to prolong these arrangements.

15. ACCOUNTS PAYABLE

As of December 31, 2005 and 2004, the Group's accounts payable included $11.3 million and $18.6 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 (Note 14).

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2005, 2004 and 2003 comprised the following:

	2005	(000's) 2004	2003
Customers' prepayments and billings in excess of project costs	$ 82,104	$52,865	$11,159
Accrued payroll and vacation	2,983	1,672	1,705
Interest payable on debt	2,616	—	—
Current portion of capital lease (Note 19)	1,332	1,155	1,062
Accrued expenses and other current liabilities	16,874	11,357	3,588
Total	**$105,909**	**$67,049**	**$17,514**

Customers' prepayments and billings in excess of project costs as of December 31, 2005, 2004 and 2003 included amounts related to transactions with subsidiaries and affiliates of Sistema of $70.9 million, $48.7 million and $9.5 million, respectively (Note 23).

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

17. SHORT-TERM LOANS AND NOTES PAYABLE

At December 31, 2005, 2004 and 2003, short-term loans and notes payable comprised the following:

	Annual interest rate (Actual at December 31, 2005)	2005	(000's) 2004	2003
Revolving credit facilities:				
Including:				
USD-denominated facilities	LIBOR+2.95% (7.65%)	$ 49,816	—	—
		49,816	**—**	**—**
USD and RUB-denominated loans and notes payable to Sistema subsidiaries	6-17%	**18,995**	**$53,067**	**$19,485**
Loans and notes payable to other parties:				
Including:				
CZK-denominated	—	—	1,548	1,827
USD-denominated	6-9%; LIBOR+3.85% (8.69%)	34,230	—	1,694
Other	Various	2,021	14,406	5,680
		36,251	**15,954**	**9,201**
Total		**$105,062**	**$69,021**	**$28,686**

***Revolving credit facilities*—**In August 2005, several Group's entities entered into a credit facility with ABN Amro Bank, limited to $50.0 million (SITRONICS—$12.0 million; Mikron—$24.0 million; VZPP-Mikron—$6.0 million; Elaks—$8.0 million). The loans bear interest of LIBOR plus 2.95% per annum and mature in 2006. As of December 31, 2005, the outstanding balance under this facility totaled $49.8 million.

***USD and RUB-denominated loans and notes payable to Sistema and subsidiaries*—**During the year ended December 31, 2005, the Group entered into several USD and RUB-denominated short-term loan agreements with MBRD, bearing interest rates from 6% to 17%. Loans outstanding at December 31, 2005 are collateralized by 1,683,822 (17.2%) of Mikron's common shares.

***Loans and notes payable to other parties*—**During the year ended December 31, 2005, Mikron and Elaks issued to Donau Bank USD-denominated promissory notes in the amounts of $10.0 million, at 91% of face value, and of $8.0 million, at 94% of face value. These notes mature in 2006 and are guaranteed by MBRD.

In November 2005, SITRONICS entered into a loan agreement with Donau Bank for the amount of $20.0 million, bearing an interest rate of LIBOR plus 3.85%, maturing in November 2006.

The loans are subject to certain restrictive covenants to the Group, including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions to pay dividends, any merger, consolidation or disposition of assets, compliance with certain financial ratios. Management believes that as of the date of these statements, the Group is in compliance with all existing covenants.

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

18. LONG-TERM DEBT

Long-term debt as of December 31, 2005, 2004 and 2003 consisted of the following:

	Currency	Annual interest rate (Actual at December 31, 2005)	2005	(000's) 2004	2003
Science and Industrial Policy Department of the Moscow Government	RUB	2.88%	$3,011	—	—
BAWAG Bank	CZK	PRIBOR+1.75% (4.28%)	1,929	—	—
EBRD	EUR	LIBOR+5% (7.85%)	925	$ 3,537	—
Sberbank	RUB	—	—	4,684	$ 4,006
Mikron bonds	RUB	—	—	—	10,185
Other	Various	0-16%	1,185	3,774	2,636
			7,050	**11,995**	**16,827**
Loans from subsidiaries of Sistema					
MBRD	RUB	—	—	4,435	—
Sistema	USD	—	—	—	5,425
Investment Pension Company	RUB	—	—	—	3,693
Putney Assets Limited	USD	—	—	—	940
Other	Various	—	—	130	165
			7,050	**16,560**	**27,050**
Less amounts maturing within 12 months			(925)	(8,606)	(3,107)
Total			**$6,125**	**$ 7,954**	**$23,943**

Science and Industrial Policy Department of the Moscow Government—In December 2005, Mikron entered into a credit facility with the Department of Science and Industrial Policy of the Moscow Government. The facility is limited to 217 million RUR ($7.6 million as of December 31, 2005). These funds will be used to finance modernization of production plant and equipment. The facility bears interest determined as one fourth of the official rate of the Central Bank of Russia and matures in 2010. As of December 31, 2005, $3.0 million was outstanding under this credit facility.

BAWAG—During the year ended December 31, 2005, Strom Telecom entered in a CZK-denominated loan agreement with BAWAG Bank, in the amount of $1.9 million. The loan bears interest of PRIBOR plus 1.75% per annum and matures not later than in 2015.

EBRD—In 2002, Kvazar-Micro entered into a Euro-denominated credit facility with the European Bank for Reconstruction and Development ("EBRD"). The facility allows to borrow up to $8.0 million. The loan includes the Term Loan and the Revolving Facility. The project financed under the facility involves construction and launch of an assembly plant. The credit facility terminates in December 2007 (parties may agree to prolong it to December 2009) and bears interest of LIBOR plus 5% per annum. The facility is secured by shares of Factory Kvazar-Micro, cash deposit in amount of $1.4 million, buildings and related facilities with the carrying value of $0.4 million; and the assignment to the EBRD of the Group's rights, interests and benefits under insurance policies maintained by certain subsidiaries of Kvazar-Micro. As of December 31, 2005, approximately $0.9 million was outstanding under this credit facility.

The facility is subject to a number of restrictive covenants, including, but not limited to certain financial ratios. In the event that Kvazar-Micro breaches any of these covenants or is not in compliance with any of the restrictions, the lender has the right, at its discretion, to claim immediate repayment of the indebtedness under the facility. As of December 31, 2005 and of the date of these statements, Kvazar-Micro was in breach of a number of the covenants. The EBRD has not sent a notice of default to Kvazar-Micro and has issued waivers in respect of certain covenants. However, other breached covenants were not covered by these waivers. Accordingly, the balance outstanding under the facility has been classified as a current liability.

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

The loans repayments over future periods are as follows:

	(000's)
Year ended December 31,	
2006	$ 925
2007	551
2008	457
2009	63
2010	3,101
Thereafter	1,953
Total	**$7,050**

19. CAPITAL LEASE OBLIGATIONS

The capital lease obligations as of December 31, 2005, 2004 and 2003 are presented as follows:

	2005	(000's) 2004	2003
Total minimum lease payments (undiscounted)	$ 3,241	$ 2,142	$ 2,658
Less amount representing interest	(304)	(124)	(133)
Present value of net minimum lease obligations	2,937	2,018	2,525
Less current portion of lease obligations (Note 16)	(1,332)	(1,155)	(1,062)
Non-current portion of lease obligations	**$ 1,605**	**$ 863**	**$ 1,463**

During 2001-2005, the Group entered into several lease agreements for equipment and vehicles. Most of the agreements expire prior to 2009 and assume transfer of ownership for leased assets to the Group at the end of the lease term.

20. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

In July 2005, SITRONICS has registered issuance of 5,817,000,000 voting common shares with par value of 1 RUB to Sistema. The issuance of shares was completed in March 2006 (Note 26). As of December 31, 2005, Sistema prepaid $56.8 million for these shares. The contribution was recorded within additional paid-in capital.

21. INCOME TAX

The Group's provision for income taxes for the years ended December 31, 2005, 2004 and 2003 is as follows:

	(000's) Year ended December 31,		
	2005	2004	2003
Current expense	$35,461	$ 7,800	$2,540
Deferred (benefit)/expense	(314)	(4,566)	386
Total income tax expense	**$35,147**	**$ 3,234**	**$2,926**

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

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

	(000's) Year ended December 31,		
	2005	2004	2003
Income tax provision computed on income before taxes at Russian statutory rate	$31,293	$ 4,650	$2,085
Adjustments due to:			
Expenses not deductible for tax purposes	3,458	440	1,078
Effect of different tax rates	2,530	404	496
Foreign currency transactions differences	(2,134)	(2,260)	(733)
Income tax expense	**$35,147**	**$ 3,234**	**$2,926**

Temporary differences between tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities as at December 31, 2005, 2004 and 2003:

		(000's)	
	2005	2004	2003
Deferred tax assets			
Property, plant and equipment	$ 4,593	$ 2,229	—
Accounts receivable	4,222	4,372	$ 2,237
Accrued expenses	1,547	658	863
Inventories and spare parts	481	454	—
Other	212	327	—
Total deferred tax assets	**$ 11,055**	**$ 8,040**	**$ 3,100**
Deferred tax liabilities			
Property, plant and equipment	(8,479)	(3,952)	(1,794)
Intangible assets	(2,407)	(3,524)	—
Other	(1,617)	(403)	(1,220)
Total deferred tax liabilities	**$(12,503)**	**$(7,879)**	**$(3,014)**
Net deferred tax assets, current	$ 4,785	$ 4,325	$ 3,100
Net deferred tax assets, long-term	$ 3,441	$ 3,666	$ —
Net deferred tax liabilities, current	$ (664)	$ (910)	$(1,220)
Net deferred tax liabilities, long-term	$ (9,010)	$(6,920)	$(1,794)

22. SEGMENT INFORMATION

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

The Group operates along five reportable segments: Telecommunication Solutions, Information Technologies Solutions, Microelectronic Solutions, Consumer Electronics and Electronics Manufacturing Services. Diversification of business entities by those segments was based on principles of production process and product specification. The Group's management evaluates performance of the segments based on their operating income. In 2006, the Group changed the structure of its internal organization to split its former Consumer Electronics segment into two segments: Consumer Electronics and

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

Electronics Manufacturing Services. The Group has retroactively restated its segment information for all periods presented.

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

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, 2005, 2004 and 2003 is as follows:

	Year ended December 31, 2005						
	Telecommunication Solutions	Information Technologies Solutions	Micro-electronic Solutions	Consumer Electronics	Electronics Manufacturing Services	Corporate	Total
Net sales to external customers	$246,592	$468,404	$56,937	$124,038	$56,533	$65	$952,569
Intersegment sales	47	—	15	—	641	—	703
Depreciation and amortization	(3,166)	(5,089)	(1,964)	(1)	(1,036)	(220)	(11,476)
Operating income/(loss)	132,049	6,469	3,622	1,921	(1,678)	(142)	142,241

	Year ended December 31, 2004						
	Telecommunication Solutions	Information Technologies Solutions	Micro-electronic Solutions	Consumer Electronics	Electronics Manufacturing Services	Corporate	Total
Net sales to external customers	$87,777	$293,209	$47,200	$30,838	$14,298	$270	$473,592
Intersegment sales	—	314	4,853	71	7,054	—	12,292
Depreciation and amortization	(1,793)	(2,654)	(1,488)	(29)	(430)	(97)	(6,491)
Operating income/(loss)	13,344	(829)	11,560	2,372	193	(573)	26,067

	Year ended December 31, 2003						
	Telecommunication Solutions	Information Technologies Solutions	Micro-electronic Solutions	Consumer Electronics	Electronics Manufacturing Services	Corporate	Total
Net sales to external customers	$50,457	—	$40,826	$3,363	$4,318	$91	$99,055
Intersegment sales	—	—	—	—	358	—	358
Depreciation and amortization	(586)	—	(2,436)	(34)	(512)	—	(3,568)
Operating income/(loss)	10,060	—	4,183	(3,059)	(408)	(719)	10,057

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

	(000's) Year ended December 31,		
	2005	2004	2003
Total segment operating income	$142,241	$26,067	$10,057
Interest income	872	197	—
Interest expense	(9,810)	(7,120)	(2,772)
Foreign currency transactions (loss)/gain	(2,914)	233	1,404
Consolidated income before income tax and minority interests	**$130,389**	**$19,377**	**$ 8,689**

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

Information about the Group's revenues attributed to different geographic areas for the years ended December 31, 2005, 2004 and 2003 is shown below.

	(000's) Year ended December 31,		
	2005	2004	2003
Russia	$495,696	$202,175	$71,532
Ukraine	266,647	135,506	—
Central and Eastern Europe	158,146	112,249	10,462
Asia-Pacific region	18,120	11,489	9,161
Others	13,960	12,173	7,900
Total sales to external customers	**$952,569**	**$473,592**	**$99,055**

Due to a wide variety of products and services produced by the Group, the Group believes that reporting revenues from external customers for each product and service (or group of similar products and services) is impracticable.

As of December 31, 2005, 2004 and 2003, the total assets of reportable segments comprised the following:

	2005	(000's) 2004	2003
Telecommunication Solutions	$213,347	$96,575	$38,680
Information Technologies Solutions	110,178	78,817	—
Microelectronic Solutions	98,866	91,612	68,528
Consumer Electronics	90,863	31,329	6,282
Electronics Manufacturing Services	49,287	29,726	15,021
	562,541	**328,059**	**128,511**
Corporate	60,659	22,230	10,082
Intersegment eliminations	(57,110)	(49,246)	(14,012)
Total assets	**$566,090**	**$301,043**	**$124,581**

For the years ended December 31, 2005, 2004 and 2003, the Group's additions to PP&E and intangible assets comprised the following:

	(000's) Year ended December 31,		
	2005	2004	2003
Telecommunication Solutions	$26,009	$ 6,323	$5,852
Information Technologies Solutions	2,968	21,646	—
Microelectronic Solutions	4,856	2,761	2,442
Consumer Electronics	39	21	232
Electronics Manufacturing Services	22,026	947	155
Corporate	525	1,376	516
Total additions to PP&E and intangible assets	**$56,423**	**$33,074**	**$9,197**

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

As of December 31, 2005, 2004 and 2003, the Group's PP&E and intangible assets, net of accumulated depreciation and amortization in respect of their geographical location were presented as follows:

	(000's)		
	2005	2004	2003
Russia	$ 67,427	$37,585	$33,780
Czech Republic	30,592	13,355	11,078
Ukraine	16,662	17,749	—
Total PP&E and intangible assets, net of accumulated depreciation and amortization	**$114,681**	**$68,689**	**$44,858**

23. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2005, 2004 and 2003, the Group entered into transactions with related parties as follows:

	(000's) Year ended December 31,		
	2005	2004	2003
Sales of software and telecommunication equipment	$227,972	$68,800	$37,300
Systems integration	68,722	—	—
Sales of handsets	12,007	12,592	—
Interest expense	(6,219)	(2,956)	(1,121)
Other	2,313	1,148	(122)

Sales of software and telecommunication equipment

Mobile TeleSystems ("MTS")—During the years ended December 31, 2005, 2004 and 2003, Strom Telecom entered into agreements with MTS, a subsidiary of Sistema, and its affiliate Mobile TeleSystems Belarus ("MTS Belarus") for sale of a billing system, a communications software support system and sale of telecommunication equipment. Pursuant to these contracts, Strom Telecom sold software, equipment and related services for approximately $178.4 million, $31.8 million and $26.6 million during the years ended December 31, 2005, 2004 and 2003, respectively.

Comstar UTS—During the years ended December 31, 2005, 2004 and 2003, Strom Telecom and Mediatel entered into several agreements with subsidiaries of Sistema currently comprising Comstar UTS (MGTS, MTU-Inform, Comstar and Telmos). Pursuant to these contracts, Strom Telecom and Mediatel sold telecommunication equipment for approximately $25.9 million, $21.5 million and $10.7 million in the years ended December 31, 2005, 2004 and 2003, respectively.

Invest-Svyaz-Holding—During the years ended December 31, 2005 and 2004, Strom Telecom and Mediatel sold telecommunication equipment to Invest-Svyaz-Holding, a subsidiary of Sistema, for $18.3 million and $15.5 million, respectively.

Multiregional TransitTelecom ("MTT")—During the year ended December 31, 2005, Strom Telecom sold telecommunication equipment to MTT, an affiliate of Sistema, for the amount of $5.4 million.

Systems integration

During the year ended December 31, 2005, Kvazar-Micro rendered systems integration services to Sistema and its subsidiaries in the amount of $68.7 million, including to MTS and UMC for $43.6 million and $12.6 million, respectively.

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

Sales of handsets

During the years ended December 31, 2005 and 2004, the Group sold handsets to Sky Link, an affiliate of Sistema, for $12.0 million and $12.6 million, respectively.

Interest expense

During the years ended December 31, 2005, 2004 and 2003, the Group had several short-term and long-term loans outstanding from Sistema and its subsidiaries, including MBRD (Notes 17 and 18). Interest expense on these loans amounted to $6.2 million, $3.0 million and $1.1 million for the years ended December 31, 2005, 2004 and 2003, respectively.

24. COMMITMENTS AND CONTINGENCIES

Operating Leases—In May 1999 and January 2000, the Group has entered into long-term agreements for operating leases of land in Zelenograd, maturing in 2015 and 2024, respectively. Rental expenses under these leases were $0.5 million for each of the years ended December 31, 2005 and 2004 and are included in operating expenses in the consolidated statement of operations.

In July 2004, Kvazar-Micro.ru has entered into a long-term agreement with Sistema for an operating lease of office premises in Moscow, which expires in 2011. Rental expenses under this operating lease of $0.4 million for the year ended December 31, 2005 are included in operating expenses in the consolidated statement of operations.

Future minimum rental payments under operating leases in effect as of December 31, 2005, are as follows:

	(000's)
Year ended December 31,	
2006	$ 1,059
2007	1,059
2008	1,059
2009	1,059
2010	1,059
Thereafter	6,661
Total	**$11,956**

Capital Commitments—During the year ended December 31, 2005, the Group has entered into an agreement to construct additional production premises for Strom Telecom. As of December 31, 2005, the Group was contractually committed to spend approximately $18.3 million to complete the construction.

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

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

Importation of Goods—Kvazar-Micro utilizes third parties to import goods into the CIS countries. There is a risk that the third parties' import transactions may be challenged by regulatory authorities and determined as inappropriate. The impact that this determination may potentially have on the Group's net income and financial position can not 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.

25. CONCENTRATIONS

***Credit Risks*—**During the years ended December 31, 2005, 2004 and 2003, the Group's sales to Sistema's subsidiaries and affiliates amounted to \$310.0 million, \$81.4 million and \$37.3 million, respectively, or 32.5%, 17.2% and 37.6% 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, 2005, 2004 and 2003 are disclosed in Notes 6 and 12; the Group's cash and short-term investments balances with Sistema's subsidiaries and affiliates are disclosed in Notes 4 and 5, respectively.

Kvazar-Micro collects proceeds from distribution of computer hardware products in the RF and Ukraine through a small number of independent dealers. Amounts due from these dealers as of December 31, 2005 and 2004 were \$31.8 million and \$23.9 million, respectively. During the years ended December 31, 2005 and 2004, revenues of Kvazar-Micro from distribution of products purchased under a distribution agreement with Intel International B.V. ("Intel") amounted to \$228.0 million and \$196.8 million, respectively, or 23.9% and 41.6% of the Group's consolidated revenues for the respective periods.

In the Consumer Electronics segment, the Group encounters credit risk as a result of a concentration of receivables among a few significant customers. Twelve new customers in this segment accounted for revenues of \$99.4 million in the year ended December 31, 2005, which is 10.4% of the Group's consolidated revenues for this period. Trade receivables from these customers amounted to \$54.8 million as of December 31, 2005.

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

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

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

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

26. SUBSEQUENT EVENTS

Contribution of Sistema—In January 2006, Sistema has fully repaid voting common shares issued by SITRONICS (Note 20). This contribution increased the Group's additional paid-in capital by $173.8 million. As of the date of these statements, the registration of the issuance report was completed.

Commerzbank Loan—In January 2006, the Group entered into a short-term loan with Commerzbank in the amount of $25.0 million, maturing in January 2007, and bearing interest rate of LIBOR plus 3%.

Equity transactions—In March 2006, SITRONICS issued to Sistema 5,817,000,000 voting common shares with par value of 1 RUB for $206.8 million.

In March 2006, SITRONICS Management, a 100% subsidiary of SITRONICS, purchased from Sistema 1,133,995,091 voting common shares of SITRONICS, for a cash consideration of $40.9 million. The treasury stock was accounted for at cost. The treasury stock was acquired for realization of share-based compensation plans in favor of SITRONICS and Sistema management.

Concurrently with the purchase of treasury stock, Sistema has approved the sale of 385,188,550 common shares of SITRONICS to the newly-appointed Sistema's CEO, who served as SITRONICS' CEO from July 2003 to February 2006. The shares were sold for $13.8 million with a payment date not later than 2010. At the date of the transaction, the fair value of shares sold to Sistema's CEO was estimated at $105.0 million, the award being attributed to his employment by Sistema.

Eurobonds Issuance—In March 2006, SITRONICS Finance S.A., a subsidiary of SITRONICS created in January, 2006, issued $200.0 million 7.875% unsecured notes at 99.672%. These notes are fully and unconditionally guaranteed by SITRONICS and mature in March 2009. SITRONICS Finance S.A. is required to make interest payments on the notes semi-annually in arrears in March and September. The notes are listed on the London Stock Exchange. Proceeds received from the notes were $199.3 million. The related issuance costs comprised $2.5 million.

The notes are subject to certain restrictive covenants to the Group, including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions to pay dividends, any merger, consolidation or disposition of assets, compliance with certain financial ratios. Management believes that as of the date of these statements, the Group is in compliance with all existing covenants.

Innovation Development Center—In March 2006, the Group has entered into a joint venture agreement with Siemens AG concerning foundation of "Innovation Development Center", where the Group owns 50.1% interest. Principal activities of the newly established entity include research, development, and manufacturing of security systems to be marketed in the CIS.

Forward Agreement—In March 2006, SITRONICS entered into a forward agreement with Dresdner bank to buy $40.0 million at fixed rate of 27.8 RUB. This arrangement is used to hedge the fair value of the Group's RUB-denominated investments and accounts receivable, to offset the effect on earnings of changes in exchange rates until these investments and receivables are collected.

Acquisition of Intracom Telecom—In June 2006, SITRONICS acquired 51.0% of common shares of Intracom Telecom for EUR 120.0 million (equivalent of $150.6 million) from Intracom Holdings S.A. Intracom Telecom is a provider of telecommunications solutions and services, such as advanced technological products in the areas of fixed and wireless broadband access and transmission systems, and content delivery systems (IPTV, triple-play), primarily in the Eastern Europe and Middle East.

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

ABN AMRO credit facility—In July 2006, Strom Telecom entered into a credit facility agreement with ABN Amro bank, limited to $15 million. The facility can be drawn in EUR, USD or CZK in form of short-term loans, overdraft, letters of guarantees or bank guarantees, with maturity dates not later than July 2008. The loans bear and interest rate of EURIBOR +0.7%, LIBOR + 0.7%, or PRIBOR + 0.7% per annum, depending on the currency of loans.

Issue of additional shares—In August 2006, SITRONICS announced the issuance of additional 293,476,990 common shares with a par value of 1 RUB each. In October 2006, Sitronics has issued these shares to the European Bank for Reconstruction and Development (EBRD) for $80.0 million. These shares are puttable to Sistema. In November 2006, SITRONICS' Board of Directors approved additional issuance of 5,000,000,000 common shares with par value of 1 RUB.

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

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

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

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

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

27. RESTATEMENT

Subsequent to the issuance of the Group's 2005 financial statements in June 2006, the Group's management identified the following errors in application of generally accepted accounting principles that occurred in the years ended December 31, 2005, 2004 and 2003:

- during these periods the Group has recognized revenues from Strom Telecom's software sales to Sistema subsidiaries under requirements of SOP 97-2, "Software Revenue Recognition" based on the management's estimate that the Group's software supplied to Sistema subsidiaries does not require significant customization subsequent to delivery. In 2006, the Group's management has reviewed the implementation process for such software and concluded that the required customization in certain instances was significant and that revenue on such arrangements should be recognized in accordance with SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts."
- in the year ended December 31, 2005, the Group did not consolidate accounts of Cosmos Wealth, a variable interest entity, of which it was a primary beneficiary (see Note 2). In 2006, the Group's management has concluded that accounts of Cosmos Wealth should have been consolidated in the Group's financial statements for the year ended December 31, 2005;
- certain misclassifications described in the "Reclassification amounts" columns in the tables below.

In addition, the Group has combined the accounts of Videofon MV, a subsidiary of Sistema, in its previously issued financial statements for the year ended December 31, 2005. Videofon MV at that time was considered by Sistema to be a part of its Technology business segment, was managed by the

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

Group and contemplated for transfer to the Group in 2006. In 2006, Sistema reconsidered its strategy for the development of Videofon MV and decided to exclude Videofon MV from the Group. The accounts of Videofon MV have been excluded from the Group's financial statements for the year ended December 31, 2005. As a result, the Group's financial statements have been restated from the amounts previously reported as follows:

As of and for the year ended December 31, 2005	As previously reported	Exclusion of Videofon MV	Reclassification amounts	Restatement amounts	As restated
Cash and cash equivalents	$ 83,718	$ (359)	$ —	$ —	$ 83,359
Trade receivables, net	180,594	(69)	(14,000)	(7,670)	158,855
Other receivables and prepaid expenses, net	63,298	(3,186)	(3,232)	—	56,880
Inventories and spare parts	101,065	(2,138)	—	14,990	113,917
Deferred tax assets, current portion	2,962	3	—	1,820	4,785
Property, plant and equipment, net	95,155	(208)	—	—	94,947
Intangible assets, net	19,777	(43)	—	—	19,734
Long-term investments	1,637	(3)	(769)	—	865
Long-term trade receivables	1,444	—	13,131	—	14,575
Deferred tax assets	3,451	(10)	—	—	3,441
Accounts payable	102,021	(66)	—	2,533	104,488
Taxes payable	40,744	(187)	—	—	40,557
Accrued expenses and other current liabilities	94,788	(1,405)	—	12,526	105,909
Short-term loans and notes payable	109,356	(4,294)	—	—	105,062
Deferred tax liabilities	9,031	(21)	—	—	9,010
Minority interests	33,796	—	(4,870)	—	28,926
Retained earnings	34,450	(40)	—	(5,920)	28,490
Revenues	954,926	(6,375)	—	4,018	952,569
Cost of sales, exclusive of depreciation and amortization shown separately below	(741,029)	4,924	23,644	(3,173)	(715,634)
Research and development expenses	—	—	(23,644)	—	(23,644)
Selling, general and administrative expenses	(51,969)	714	(1,900)	(1,600)	(54,755)
Depreciation and amortization	(11,484)	8	—	—	(11,476)
Other operating expenses, net	(6,828)	109	1,900	—	(4,819)
Operating income	143,616	(620)	—	(755)	142,241
Interest expense, net of amounts capitalized	(10,234)	424	—	—	(9,810)
Foreign currency transactions loss	(3,032)	118	—	—	(2,914)
Income before income tax and minority interests	131,222	(78)	—	(755)	130,389
Income tax expense	(35,463)	39	—	277	(35,147)
Income before minority interests	95,759	(39)	—	(478)	95,242
Minority interests	(29,613)	—	—	3,598	(26,015)
Extraordinary gain	3,956	—	—	(3,956)	—
Net income	70,102	(39)	—	(836)	69,227
Comprehensive income	$ 66,314	$ (39)	$ —	$ (836)	$ 65,439

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

As of and for the year ended December 31, 2004	As previously reported	Reclassification amounts	Restatement amounts	As restated
Trade receivables, net	$ 55,469	$(7,000)	$ (2,933)	$ 45,536
Other receivables and prepaid expenses, net	40,250	(4,291)	—	35,959
Inventories and spare parts	73,378	7,000	1,643	82,021
Deferred tax assets, current portion	1,673	—	2,652	4,325
Long-term investments	2,218	(761)	—	1,457
Accrued expenses and other current liabilities	57,434	705	8,910	67,049
Government grants	705	(705)	—	—
Minority interests	34,682	(5,052)	(2,463)	27,167
Accumulated deficit	(35,652)	—	(5,085)	(40,737)
Revenues	488,092	—	(14,500)	473,592
Cost of sales, exclusive of depreciation and amortization shown separately below	(407,159)	9,246	650	(397,263)
Research and development expenses	—	(9,246)	—	(9,246)
Selling, general and administrative expenses	(32,395)	—	(1,478)	(33,873)
Loss from disposal of an interest in a subsidiary	(1,478)	—	1,478	—
Operating income	39,917	—	(13,850)	26,067
Income before income tax and minority interests	33,227	—	(13,850)	19,377
Income tax expense	(6,835)	—	3,601	(3,234)
Minority interests	(7,249)	—	2,456	(4,793)
Net income	19,143	—	(7,793)	11,350
Comprehensive income	$ 20,156	$ —	$ (7,793)	$ 12,363

As of and for the year ended December 31, 2003	As previously reported	Reclassification amounts	Restatement amounts	As restated
Trade receivables, net	$ 19,766	$ —	$ 649	$ 20,415
Other receivables and prepaid expenses, net	18,728	(4,248)	—	14,480
Inventories and spare parts	20,343	—	3,715	24,058
Long-term investments	13,214	(804)	—	12,410
Accrued expenses and other current liabilities	16,463	347	704	17,514
Deferred tax liabilities, current portion	268	—	952	1,220
Government grants	347	(347)	—	—
Minority interests	6,908	(5,052)	—	1,856
Accumulated deficit	(54,795)	—	2,708	(52,087)
Revenues	95,955	—	3,100	99,055
Cost of sales, exclusive of depreciation and amortization shown separately below	(64,162)	7,828	560	(55,774)
Research and development expenses	—	(7,828)	—	(7,828)
Operating income	6,397	—	3,660	10,057
Income before income tax and minority interests	5,029	—	3,660	8,689
Income tax expense	(1,974)	—	(952)	(2,926)
Net income	2,315	—	2,708	5,023
Comprehensive income	$ 4,076	$ —	$2,708	$ 6,784

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2006 (UNAUDITED) AND DECEMBER 31, 2005 (RESTATED)

(Amounts in thousands of U.S. dollars, except share amounts)

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

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2006 (UNAUDITED) AND DECEMBER 31, 2005 (RESTATED) (Continued)

(Amounts in thousands of U.S. dollars, except share amounts)

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

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

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

(Amounts in thousands of U.S. dollars)

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

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (RESTATED) (UNAUDITED)

(Amounts in thousands of U.S. dollars)

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

JSC SITRONICS AND SUBSIDIARIES

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

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

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

See notes to consolidated financial statements.

JSC SITRONICS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (RESTATED) (UNAUDITED)

(Amounts in thousands of U.S. dollars)

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

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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

The Group operates along five operating segments:

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

(1) —Including indirect ownership

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group does not use derivatives for trading purposes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Telecommunication Solutions segment:

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

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

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

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

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

Information Technologies Solutions segment:

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

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

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

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

Microelectronic Solutions, Consumer Electronics and Electronics Manufacturing Services segments:

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

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

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

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

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

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

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

(a) Defined contribution plans:

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

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

(b) Other post-retirement benefits:

At Intracom Telecom, employees are entitled to an indemnity in the event of termination of employment, including in the case of retirement, with the amount of payment varying in relation to the employees' compensation and length of service. In addition, Intracom Telecom should pay a lump-sum payment between 14 and 28 monthly salaries, depending on past service, upon death of an employee. Intracom Telecom is responsible for financing the compensation. The Group accounts for this plan following the requirements of SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 132R, "Employers' Disclosure about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106". The plan is unfunded.

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

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

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

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

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

***Recently Adopted Accounting Pronouncements*—**In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143." This Interpretation clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity, in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists to make a reasonable estimate of the fair value of the obligation. Interpretation No. 47 became effective for the Group in the year ended December 31, 2005. The adoption of Interpretation No. 47 did not have a material impact on the Group's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", which replaces APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 changes the requirements for the accounting and reporting of a change in accounting principle and is applicable to all voluntary changes and to changes required by an accounting pronouncement if such pronouncement does not specify transition provisions. SFAS No. 154 requires retrospective application to the prior periods' financial statements of changes in accounting principle. In cases when it is impracticable to determine the period-specific or cumulative effects of an accounting change, the statement provides that the new accounting principle should be applied as of the earliest period for which retrospective application is practicable or, if impracticable to determine the effect of a change to all prior periods, prospectively from the earliest date practicable. This Statement is effective for the Group from January 1, 2006.

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

In October 2005, the FASB issued FASB Staff Position ("FSP") FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period". Under the provisions of FSP FAS 13-1, lessees may not capitalize rental costs incurred on building or ground operating leases during a construction period. Instead, rental costs should be expensed on a straight-line basis starting at the beginning of the lease term, i.e., when the lessee takes possession of or is given control of the leased property. The provisions of FSP FAS 13-1 are effective for the Group for the year ending December 31, 2006. The adoption of FSP FAS 13-1 did not have a material impact on the Group's financial position and results of operations.

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

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

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

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

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

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

3. ACQUISITIONS

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

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

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

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

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

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

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

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

	(000's) Nine months ended September 30, 2006	2005
Pro forma:		
Revenues	$1,049,790	$881,378
Operating income	76,926	132,814
Net income	36,016	53,048
Earnings per share, basic and diluted:	$ 0.006	$ 0.028

4. CASH AND CASH EQUIVALENTS

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

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

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

5. SHORT-TERM INVESTMENTS

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

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

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

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

6. TRADE RECEIVABLES, NET

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

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

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

7. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

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

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

8. INVENTORIES AND SPARE PARTS

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

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

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

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

9. PROPERTY, PLANT AND EQUIPMENT, NET

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

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

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

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

10. INTANGIBLE ASSETS, NET

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

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

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

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

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

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

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

11. LONG-TERM INVESTMENTS

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

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

12. LONG-TERM TRADE RECEIVABLES

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

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

13. PREPAID RENT

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

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

14. RESTRICTED CASH

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

15. ACCOUNTS PAYABLE

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

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

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

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

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

17. SHORT-TERM LOANS AND NOTES PAYABLE

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

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

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

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

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

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

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

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

18. LONG-TERM DEBT

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

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

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

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

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

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

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

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

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

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

19. CAPITAL LEASE OBLIGATIONS

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

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

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

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

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

20. POST-RETIREMENT BENEFITS

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

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

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

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

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

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

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

21. OTHER LONG-TERM LIABILITIES

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

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

22. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

23. INCOME TAX

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

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

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

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

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

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

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

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

24. EQUITY TRANSACTIONS

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

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

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

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

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

25. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

26. RELATED PARTY TRANSACTIONS

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

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

Sales of software and telecommunication equipment

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

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

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

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

Systems integration

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

Sales of handsets

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

Sales of smart cards

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

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

Interest income

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

Interest expense

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

Transactions and balances with Intracom Holdings

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

27. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

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

28. CONCENTRATIONS

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

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

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

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

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

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

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

29. SUBSEQUENT EVENTS

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

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

Registration of shares issued to EBRD—In October 2006, SITRONICS has completed issuance of 293,476,990 common shares to EBRD.

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

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

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

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

30. RESTATEMENT

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

- during this period the Group has recognized revenues from Strom Telecom's software sales to Sistema subsidiaries under requirements of SOP 97-2, "Software Revenue Recognition" based on the management's estimate that the Group's software supplied to Sistema subsidiaries does not require significant customization subsequent to delivery. In 2006, the Group's management has reviewed the implementation process for such software and concluded that the required customization in certain instances was significant and that revenue on such arrangements should be recognized in accordance with SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts."

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

- in the nine months ended September 30, 2005, the Group did not consolidate accounts of Cosmos Wealth, a variable interest entity, of which it was a primary beneficiary (see Note 2). In 2006, the Group's management has concluded that accounts of Cosmos Wealth should have been consolidated in the Group's financial statements for the nine months ended September 30, 2005;
- certain misclassifications described in the "Reclassification amounts" columns in the table below.

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

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

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of Intracom S.A. Telecom Solutions

We have audited the accompanying combined consolidated balance sheet of Intracom S.A. Telecom Solutions and its subsidiaries (collectively—the "Group") as of December 31, 2005 and the related combined consolidated statements of operations, cash flows and changes in owner's equity for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that the audit is planned and performed 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 audit provides a reasonable basis for our opinion.

The Group is comprised of the telecommunication businesses of Intracom Holdings S.A. ("Intracom Holdings"); consequently, the accompanying financial statements have been prepared from the accounting records maintained by Intracom Holdings and may not necessarily be indicative of the conditions that would have existed or the results of operations and cash flows if the Group had been operated as a stand-alone company.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2005 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

January 16, 2007
/s/ Deloitte
Hadjipavlou, Sofianos & Cambanis S.A.
Athens, Greece

INTRACOM S.A. TELECOM SOLUTIONS

COMBINED CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2005
(All amounts in thousands Euro)

	Notes	December 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	3	30,776
Trade receivables, net	4	253,998
Other receivables and prepaid expenses	5	32,087
Inventories and spare parts	6	83,230
Deferred tax assets, current portion	15	5
Total current assets		**400,096**
LONG-TERM ASSETS:		
Property, plant and equipment, net	7	88,467
Intangible assets, net	8	28,012
Long-term investments	9	575
Long-term receivables	4	78,047
Deferred tax assets	15	14,174
Total long-term assets		**209,275**
TOTAL ASSETS		**609,371**

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

INTRACOM S.A. TELECOM SOLUTIONS

COMBINED CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2005 (Continued)
(All amounts in thousands Euro)

	Notes	December 31, 2005
LIABILITIES AND OWNER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable		77,204
Taxes payable		2,846
Accrued expenses and other current liabilities	10	82,764
Short-term loans and notes payable	11	90,252
Long-term debt, current portion	13	5,934
Derivative financial instrument	12	15,862
Deferred tax liabilities, current portion	15	12
Government grant, current portion		8
Total current liabilities		**274,882**
LONG-TERM LIABILITIES:		
Long-term debt	13	102,506
Capital lease obligations	14	12,091
Warranties and employee-related liabilities	18	7,065
Government grant		61
Deferred tax liabilities	15	5
Total long-term liabilities		**121,728**
TOTAL LIABILITIES		**396,610**
Commitments and contingencies	17	—
Minority interests		4,068
OWNER'S EQUITY:		
Owner's net investment		208,930
Accumulated other comprehensive loss		(237)
TOTAL OWNER'S EQUITY		**208,693**
TOTAL LIABILITIES AND OWNER'S EQUITY		**609,371**

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

INTRACOM S.A. TELECOM SOLUTIONS

COMBINED CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE YEAR ENDED DECEMBER 31, 2005

(All amounts in thousands Euro)

	Notes	2005
Revenues		278,102
Cost of sales, exclusive of depreciation and amortization shown separately below		(198,021)
Research and development expenses		(14,539)
Selling, general and administrative expenses		(47,303)
Depreciation and amortization	7,8	(20,097)
Other operating income, net		452
Operating loss		**(1,406)**
Interest income		3,769
Interest expense		(14,144)
Foreign currency transactions gain, net	12	5,261
Loss before income tax and minority interest		(6,520)
Income tax benefit, net	16	3,147
Loss before minority interest		(3,373)
Minority interest		(94)
Net loss		**(3,467)**
Translation adjustment, net of income tax of nil		(1,227)
Comprehensive loss		**(4,694)**

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

INTRACOM S.A. TELECOM SOLUTIONS

COMBINED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
(All amounts in thousands Euro)

	2005
OPERATING ACTIVITIES:	
Net loss	(3,467)
Adjustments to reconcile net loss to net cash provided by operations:	
Depreciation and amortization charge	20,097
Minority interests	94
Change in the fair value of the derivative financial instrument	(18,238)
Foreign exchange loss on loans	12,977
Gain from disposal of property, plant and equipment	(17)
Deferred income tax benefit	(4,160)
Provision for doubtful debts	3,359
Inventory obsolescence charge	6,008
Changes in warranties and employee-related liabilities, net	1,910
Changes in operating assets and liabilities:	
Trade receivables	16,750
Other receivables and prepaid expenses	8,693
Inventories and spare parts	(2,360)
Accounts payable	(9,549)
Taxes payable	(7,351)
Accrued expenses and other current liabilities	17,755
Warranties and employee-related liabilities	(6,869)
Net cash provided by operating activities	35,632
INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	(2,133)
Proceeds from disposals of property, plant and equipment	221
Purchases and capitalised intangible assets	(9,434)
Purchases of long-term investments	(42)
Net cash used in investing activities	(11,388)
FINANCING ACTIVITIES:	
Proceeds from short-term borrowings	796
Repayments on short-term borrowings	(27,949)
Principal payments on capital lease obligations	(1,553)
Net cash used in financial activities	(28,706)
DECREASE IN CASH AND CASH EQUIVALENTS	(4,462)
CASH AND CASH EQUIVALENTS, beginning of the year	35,238
CASH AND CASH EQUIVALENTS, end of the year	30,776
CASH PAID DURING THE YEAR FOR:	
Interest expense	8,883
Income taxes	1,013

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

INTRACOM S.A. TELECOM SOLUTIONS

COMBINED CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY FOR THE YEAR ENDED DECEMBER 31, 2005

(All amounts in thousands Euro)

	Owner's net investment	Accumulated other comprehensive income / (loss)	Total
Balances as of January 1, 2005	**212,397**	**990**	**213,387**
Net loss	(3,467)	—	(3,467)
Translation adjustment, net of income tax of nil	—	(1,227)	(1,227)
Balances as of December 31, 2005	**208,930**	**(237)**	**208,693**

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

(All amounts in thousands Euro unless otherwise expressed)

1. DESCRIPTION OF BUSINESS

The financial statements of Intracom S.A. Telecom Solutions ("Intracom Telecom" or "the Company") are presented on a carve-out basis to include the historical operations of the telecommunication solutions segment of Intracom Holdings S.A. ("Intracom Holdings"), an entity listed on the Athens Stock Exchange. The Company remained a wholly owned subsidiary of Intracom Holdings up to June 30, 2006 when 51% of the total outstanding shares were acquired by JSC Sitronics.

The Company was incorporated on September 30, 2005 as a wholly owned subsidiary of Intracom Holdings and the relevant approvals by the authorities were obtained on December 29, 2005. On September 30, 2005, 6,841,510 shares were issued with a par value of Euro 29.35 each. During the first half of 2006, additional 1,103,626 shares were issued for the acquisition from Intracom Holdings of certain assets and 74% of shares of Intrarom S.A., a subsidiary of Intracom Holdings in the telecommunications business. In addition 184,860 shares were cancelled for the disposal of Fornax Group, a subsidiary whose activities did not match the future strategy of the Company, back to Intracom Holdings.

Intracom S.A. Telecom Solutions and its subsidiaries (collectively referred to as "the Group") operate in Greece and in the United States of America ("USA"), Romania, Bulgaria, Russia, and other countries.

The Group is engaged in the design, development, production, certification, installation and support of advanced technology projects in the telecommunications and IT sector.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying combined consolidated financial statements of Intracom Telecom include certain majority owned subsidiaries and assets and liabilities of the telecommunication solutions segment of Intracom Holdings. The legal reorganization of Intracom Telecom was completed as of June 30, 2006, The combined consolidated financial statements of Intracom Telecom have been prepared assuming that the Group existed prior to January 1,2005, and using the ownership interests in subsidiaries and assets and liabilities that were in effect as of June 30, 2006. The companies included in these combined consolidated financial statements and the related percentage interest used for purposes of combination and consolidation are as follows:

Company	Interest held	Country of Incorporation
Intracom S.A. Telecom Solutions	Parent	Greece
Intracom Bulgaria S.A.	100%	Bulgaria
Intracom Svyaz Ltd.	100%	Russia
Intracom Doo Skopje	100%	Former Yugoslav Republic of Macedonia
Intralban SHA	95%	Albania
Intrarom S.A.	74%	Romania
Intracom Telecom Holdings International Ltd (Subgroup)	100%	Cyprus
Intracom Middle East Llc	100%	United Arab Emirates
Conklin Corporation	100%	USA
Intracom Doo Belgrade	100%	Serbia
Intracom Doo Armenia	100%	Armenia
Intracom Telecom Technologies Ltd.	100%	Cyprus
Intracom Telecom Operations Ltd.	100%	Cyprus

The combined consolidated financial statements have been derived from the accounting records of Intracom Holdings using the historical results of operations and historical basis of assets and liabilities of the combined businesses.

Management believes the assumptions underlying the combined consolidated financial statements are reasonable. However, the combined consolidated financial statements included herein may not necessarily reflect the results of operations, financial position and cash flows in the future or what its results of operations, financial position and cash flows would have been had the Group been a stand-alone company during the period presented. The combined consolidated financial statements include allocations of certain Intracom Holdings expenses, assets and liabilities, including the items described below.

- General corporate expenses

Intracom Holdings allocated general corporate expenses mainly for selling, general and administrative and research and development expenses which amounted to €12,629 in 2005. The allocations largely relate to accounting and IT support, legal support, cash management and human resources services. Management believes the costs of these services charged are a reasonable representation of the costs that would have been incurred if the Group had performed these functions as a stand-alone company.

- Interest expense

Interest expense relating to the loans assumed by the Group on December 29, 2005 has been charged to the Group's statement of operations for the period presented (see Note 13).

- Employee termination benefits

Employee termination benefits were allocated based on number of employees transferred from Intracom Holdings to Intracom Telecom.

Principles of consolidation

The combined consolidated financial statements include the accounts of Intracom S.A. Telecom Solutions and the subsidiaries over which Intracom S.A. Telecom Solutions has operating and financial control, as described in Note 1. Subsidiaries in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. The accounting treatment for the consolidation of subsidiaries used in the preparation of these financial statements and the subsidiaries included in the consolidation is described above, under the "basis of presentation" paragraph.

All significant inter-company balances, revenues, expenses and gains on transactions between Group companies are eliminated.

Use of estimates

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Foreign currency translation methodology

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are expressed in the functional currency at the exchange rates in effect at the balance sheet date. Gains or losses resulting from foreign currency transactions are included in the statement of operations.

For consolidation, the Group follows a translation policy in accordance with Statement on Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation". Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro, which is the Group's functional and reporting currency.

The results and financial position of all entities of the Group that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

- Assets and liabilities are translated at the closing rate at the balance sheet date;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a component of other comprehensive income/(loss).

The resulting translation loss in amount of €1,227 for the year ended December 31, 2005 is recorded as a separate component of other comprehensive loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Fair value of financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, investments accounts, accounts payable and debt.

Short-term financial instruments consist primarily of cash, accounts receivable, accounts payable and short-term debt. The estimated fair value of such financial instruments as of December 31, 2005 approximated their carrying values as reflected in the balance sheet because of the short maturities of these instruments.

Long-term financial instruments consist primarily of long-term accounts receivable and long-term debt. As of December 31, 2005, the fair value of long-term receivables approximated the principal amount. The fair value of long-term debt approximates the recorded value due to its variable interest rates.

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

The Group enters into sale agreements with certain of its clients where the final payment is not due until more than twelve months from the delivery date. Long-term receivables are measured at amortized cost using the effective interest method.

Receivables sold under factoring agreements without recourse that meet the requirements of SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" reduce trade and other receivables.

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.

Derivative financial instruments

The Group enters into cross currency interest rate swap agreements. Changes in the fair value of cross currency interest rate swap agreements that do not qualify for hedge accounting are recognized in the statement of operations as they arise. In 2005, the Group did not designate any derivative financial instruments as hedges.

Inventories and spare parts

Inventories and spare parts comprise of raw materials and spare parts, work-in-progress and finished goods and merchandise and are stated at the lower of cost or market. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress is comprised of raw materials, direct labour, other direct costs and related production overheads. The Group periodically assesses its inventories and spare parts for obsolete and slow moving inventory.

Property plant and equipment

Property, plant and equipment ("PPE") are stated at cost less accumulated depreciation and amortization. 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 statement of operations as incurred.

Land is not depreciated. Depreciation on PPE is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, in order to write down the cost to its residual value. The expected useful life of property, plant and equipment is as follows:

Buildings	33-34 years
Leasehold improvements	Lesser of the estimated useful life or the term of lease
Plant, machinery and equipment	5-10 years
Aircraft	12 years

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

Intangible assets

Intangible assets, which all have finite lives, are stated at historical cost less amortization. Amortization is calculated using the straight-line method over the useful economic lives. Intangible assets consist of software acquired, software licenses and internally developed software programs.

Software acquired represents the value of the proprietary know-how which was technologically feasible as of the acquisition date, and is charged to the statement of operations on a straight-line basis over its estimated useful life of two to three years.

Software licenses are stated at historical cost less subsequent amortization. Amortization is calculated using the straight-line method over the useful economic lives, ranging between 3-5 years.

Cost 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. Such costs include staff costs of the software development team and an appropriate portion of relevant overheads. Internally developed software is amortized over its useful life, ranging between 3-5 years. Additionally, expenditure, which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

Impairment of tangible assets and intangible assets

The Group periodically evaluates the recoverability of the carrying amount of its tangible assets and finite life intangible assets that are subject to amortization, 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 amounts of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets. Management is not aware of any indications of impairment relating to the Group's investments in tangible and finite life intangible assets as of December 31, 2005.

Research and development expenses

Research and development costs are charged to the statement of operations in the periods in which they are incurred. However, costs of research and development activities conducted for others under specific contractual arrangements are charged to cost of sales in the same period as the related revenue is recognized.

Investments

Investments where the Group owns less than 20% of share capital and which are non-marketable, are accounted for at cost of acquisition. An impairment loss is recorded when there has been a loss in value of the investment that is other than temporary.

Leasing arrangements

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

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

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the statement of operations over the period necessary to match them with the costs they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities and are amortized to the statement of operations on a straight-line basis over the expected lives of the related assets.

Warranties

As part of the normal sale of products and delivery of services, the Group provides its customers with product warranties that extend for periods generally ranging from one to two years from the date of sale. A liability for the expected cost of warranty-related claims is established when products are sold as a percentage of each sale. In estimating warranty liability, historical experience as well as historical material replacement costs and the associated labor costs to correct the product defect are considered. Revisions are made when actual experience differs materially from historical experience. Known product defects are specifically accrued for, as the Group becomes aware of such defects.

Compensated absences

The Group accrues for employees' future vacation costs as compensation expense, over time, in the periods in which it vests.

Revenue recognition

The Group's products and services are generally sold as part of a contract and the terms of the contracts, taken as a whole, determine the appropriate revenue recognition methods.

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts. The Group earns the majority of its revenue from long-term contractual arrangements entailing integrated solutions. Such solutions include telecommunication products and systems (equipment and software) as well as professional services in a broad range of technologies. The majority of sales contracts concern customized equipment and software, installation, post—contract customer support, maintenance and training. In addition, there are sales that relate to specific purchase orders for equipment and software; these however mostly derive from existing contracts.

Depending upon the terms of the contract and types of products and services sold, the Group recognizes revenue under American Institute of Certified Public Accountants Statement of Position ("SOP") 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1") and SOP 97-2, "Software Revenue Recognition" ("SOP 97-2"). Revenue is recognized net of cash discounts and allowances.

For arrangements that include hardware and software where software is considered more than incidental to the hardware, provided that the software is not essential to the functionality of the hardware and the hardware and software represent separate units of accounting, revenue related to the software element is recognized under SOP 97-2 and revenue related to the hardware element is recognized under SOP 81-1. For arrangements where the software is considered more than incidental and essential to the functionality of the hardware, or where the hardware is not considered a separate unit of accounting from the software deliverables, revenue is recognized for the software and the hardware as a single unit of accounting pursuant to SOP 97-2 for off-the-shelf products and pursuant to SOP 81-1 for customized products.

For accounting units related to customized network solutions and certain network build-outs, revenues are recognized under SOP 81-1 using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known. Generally, the terms of long-term contracts provide for progress billing based on completion of certain phases of work. Contract revenues recognized, based on costs incurred towards the completion of the project, that are unbilled are accumulated in accrued income and included in "Other receivables".

A group of contracts with a single customer may be negotiated as a package with the objective of achieving an overall profit margin, although the profit margins on the individual contracts may vary. In case of a group of contracts which are so closely related that they are, in effect, parts of a single project with an overall profit margin, accounting for the contracts individually is not feasible or appropriate. Under those circumstances, consideration is given to combining such contracts for profit recognition purposes. The presumption in combining contracts is that revenue and profit are earned, and should be reported, uniformly over the performance of the combined contracts.

For hardware, delivery is considered to have occurred upon shipment provided that risk of loss, and title in certain jurisdictions, have been transferred to the customer.

Engineering, installation and other service revenues are recognized as the services are performed.

Software revenue is generally recognized under SOP 97-2. For software arrangements involving multiple elements, the Group allocates revenue to each element based on the relative fair value or the residual method, as applicable, and using vendor specific objective evidence of fair values, which is based on prices charged when the element is sold separately. Software revenue accounted for under SOP 97-2 is recognized when persuasive evidence of an arrangement exists, the software is delivered in accordance with all terms and conditions of the customer contracts, the fee is fixed or determinable and collection is reasonably assured. Revenue related to post-contract support ("PCS"), including technical support and unspecified when-and-if available software upgrades, is recognized ratably over the PCS term.

Under SOP 97-2, if fair value does not exist for any undelivered element, revenue is not recognized until the earlier of (i) the undelivered element is delivered or (ii) fair value of the undelivered element exists, unless the undelivered element is a service, in which case revenue is recognized as the service is performed since the service is the only undelivered element.

Income taxes

Income taxes for the entities of the Group have been computed in accordance with the laws of their respective jurisdictions.

Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined 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.

Deferred income tax is provided on the excess of the amounts for financial reporting over the tax bases of the Group's investments in subsidiaries if it is apparent that such differences will reverse in the foreseeable future.

Deferred income tax is determined using tax rates and laws that have been enacted by the balance sheet date.

Interest income

Interest income is recognized as earned using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate. Subsequently, interest is recognized on the impaired value.

Employee benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits or upon retirement with the amount of payment varying in relation to the employees' compensation, length of service and whether the employee is terminated or retires. The Group recognises termination benefits when the Group is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy termination. Benefits falling due more than 12 months after balance sheet date are discounted to present value. Where there is uncertainty about the number of employees who will accept an offer of termination benefits, the Group discloses information about the contingent liability.

The Group accounts for post retirement benefits following the requirements of SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 132R, "Employers' Disclosure about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106." The Group's post retirement program is unfunded.

Minority interest

Minority interest represents the shares in the book value of net assets of the Group's entities proportional to equity interests in those entities owned, directly or indirectly, by shareholders other than Intracom Telecom and its subsidiaries.

New accounting pronouncements

The Financial Accounting Standard Board ("FASB") issued Statement No. 151, "Inventory Costs," (FAS No. 151) in November 2004. FAS No. 151 is effective for fiscal years beginning after June 15, 2005, and amends the guidance of ARB No. 43 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). FAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." The adoption of FAS No. 151 as of January 1, 2006, is not expected to have a material impact on the results of operations or financial position of the Group.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non monetary Assets," an amendment of APB Opinion No. 29, "Accounting for Non monetary Transactions". SFAS No. 153 eliminates the exception from fair value measurement for non monetary exchanges of similar productive assets set in the APB Opinion No. 29 and replaces it with a general exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a non monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective prospectively for non monetary exchanges occurring after June 15, 2005. The adoption of SFAS No. 153 did not have a material impact on the Group's financial position or results of operations.

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

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

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

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

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

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

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and

(All amounts in thousands Euro unless otherwise expressed)

132(R) ("SFAS 158"). SFAS 158 requires companies with publicly traded equity securities that sponsor a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of their benefit plan(s). The funded status is measured as the difference between the fair value of the plan's assets and its benefit obligation. SFAS 158 also requires companies to measure their plan assets and benefit obligations as of year-end balance sheet date. SFAS 158 is becoming effective for fiscal years ending after December 15, 2006; the provision to require measurement at the entity's year-end balance sheet date will be effective for fiscal years ending after December 15, 2008. The Group does not expect the adoption of SFAS 158 to have a material impact on its financial position or results of operations.

In June 2005, the FASB issued FSP FAS 143-1, "Accounting for Electronic Equipment Waste Obligations," which provides guidance on the accounting for obligations associated with the Directive on Waste Electrical and Electronic Equipment (the "Directive"), which was adopted by the European Union ("EU"). Under the Directive, the waste management obligation for historical equipment (products put on the market on or prior to August 13, 2005) remains with the commercial user until the equipment is replaced. FSP FAS 143-1 is required to be applied to the later of the first reporting period ending after June 8, 2005 or the date of the Directive's adoption into law by the applicable EU member countries in which the Group has significant operations. The adoption of FSP FAS 143-1 did not have a material impact on the financial position or results of operations.

3. CASH AND CASH EQUIVALENTS

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

	December 31, 2005
Bank current accounts	26,835
Bank time deposits	2,466
Cash on hand	1,475
Total	**30,776**

Bank time deposits have original maturities less than three months and bear interest from 2.09% to 4.05%.

4. TRADE RECEIVABLES, NET

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

	December 31, 2005
Current:	
Trade receivables	261,721
Less: provision for doubtful accounts	(7,723)
Total	**253,998**
Long-term:	
Trade receivables	77,948
Other receivables	99
Total	**78,047**

Included in current trade receivables are receivables for products shipped and services provided to Intracom Holdings and other subsidiaries and affiliates of Intracom Holdings amounting to €38,934. Management anticipates no losses in respect of receivables from these entities.

(All amounts in thousands Euro unless otherwise expressed)

As at December 31, 2005, receivables amounting to €2,649 have been sold without recourse and accordingly have reduced the receivables balance. No delinquencies and other losses were recognized related to these receivables during the year ended December 31, 2005.

5. OTHER RECEIVABLE AND PREPAID EXPENSES

Other receivables and prepaid expenses as of December 31, 2005 comprised the following:

	December 31, 2005
Receivables from related parties	6,687
Advances to suppliers	6,489
Accrued income	5,396
Prepaid expenses	5,217
Taxes prepaid	1,871
Loans to employees	417
Other	6,010
Total	**32,087**

6. INVENTORIES AND SPARE PARTS

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

	December 31, 2005
Raw materials and spare parts	41,209
Work-in-progress	2,315
Finished goods and merchandise	39,706
Total	**83,230**

During 2005, certain inventory was written down to market. The write-down amounted to €6,008.

7. PROPERTY, PLANT AND EQUIPMENT

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

	December 31, 2005
Land	7,200
Buildings and leasehold improvements	60,173
Plant, machinery and equipment (including leased equipment)	74,936
Leased aircraft	16,613
Construction in progress and equipment for installation	133
	159,055
Less: accumulated depreciation	(70,588)
Total	**88,467**

Depreciation expense for property, plant and equipment for the year ended December 31, 2005 amounted to €11,716.

Plant, machinery and equipment includes machinery accounted for as a finance lease. As of December 31, 2005 the cost of such leased machinery amounted to €4,034 and accumulated depreciation €2,219. Depreciation expense relating to the finance lease for the year ended

(All amounts in thousands Euro unless otherwise expressed)

December 31, 2005 amounted to €807. In addition the aircraft is accounted for as a finance lease with a cost of €16,613, accumulated depreciation of €1,615 and current year depreciation of €1,319.

8. INTANGIBLE ASSETS

Finite life intangible assets as of December 31, 2005 comprised the following:

	Cost	Accumulated amortization	Net carrying value
Internally developed software	19,838	8,296	11,542
Software acquired	54,520	44,363	10,157
Licenses	1,087	832	255
Internally developed software in process	6,058	—	6,058
Total intangible assets	**81,503**	**53,491**	**28,012**

Amortization expense for the year ended December 31, 2005 amounted to €8,381.

The future amortization of intangible assets is estimated as follows:

Year ending December 31,	
2006	11,763
2007	11,763
2008	2,064
2009	1,211
2010	1,211
	28,012

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

9. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2005 comprised the following:

	December 31, 2005
Voting common shares of Intracom Construct S.A. (8% participation)	548
Voting common shares of Lotrom S.A. (16% participation)	27
Total	**575**

10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	December 31, 2005
Customers' prepayments	32,059
Liabilities to related parties (Note 16)	26,913
Accrued contractor fees payable	7,956
Current portion of capital lease	1,687
Social security contributions	199
Other accruals	13,950
Total	**82,764**

(All amounts in thousands Euro unless otherwise expressed)

11. SHORT-TERM LOANS AND NOTES PAYABLE

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

	Currency	Annual Interest rate (Spread over EURIBOR/LIBOR)	December 31, 2005	Date of last amendment	Expiration
Alpha Bank	Euro	1.0%-2.2%	12,583	29/12/2005	Revolving
National Bank of Greece	Euro	1.00%	13,700	29/12/2005	Revolving
Commercial Bank	Euro	1.25%	12,500	29/12/2005	Revolving
Societe Generale-Geniki Bank	Euro	1.50%	19,085	29/12/2005	Revolving
Hypovereinsbank	Euro	0.8%-1.5%	10,351	30/12/2005	30/01/2006
BNP	Euro	1.50%	—		
Pireaus Bank	Euro	1.10%	8,800	22/12/2005	Revolving
Eurobank	Euro	1.10%	8,300	28/12/2005	Revolving
Aspis Bank	Euro	1.50%	1,319	28/12/2005	Revolving
Atlantic Bank of New York	Euro	7.00%*	381	18/02/2004	31/12/2006
HSBC Bank Armenia	Euro	7.00%*	545	12/12/2005	28/02/2006
ING Bank	Euro	1.25%	1,659	03/12/2003	On demand
Citibank	Euro	1.50%	1,029	05/05/2005	30/11/2006
Total			**90,252**		

* Represents total fixed annual interest rate.

Short-term loans consist of draw downs under various lines of credit maintained by the Group with several banks. The aggregate amount of available lines of credit was €290,867 at December 31, 2005, of which approximately €200,615 was unused.

The weighted average interest rate on short-term borrowings for the year ended December 31, 2005 was 4.5%.

12. DERIVATIVE FINANCIAL INSTRUMENTS

The Group has a cross currency interest rate swap agreement with Alpha Bank in order to be protected from significant currency fluctuations. The agreement called for the Group to pay a rate of three-month EURIBOR+1.585% on €118,000 and receive an interest of three-month LIBOR+1.5% on US $120,900. The date of the renewal was December 23, 2005 and the termination date was January 23, 2006 which was further renewed until January 23, 2007. This instrument did not qualify for special hedge accounting under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended. As of December 31, 2005, the Group recorded a derivative liability of €15,862 with respect to this contract in the accompanying combined consolidated balance sheet. Foreign exchange gain on derivatives of €18,238 and a foreign exchange loss on related syndicated loan of €12,977 were recognized in the statement of operations for the year ended December 31, 2005 after taking into account the effect of the revaluation of the swap and the loan into Euros.

	December 31, 2005	
	Liabilities	Nominal value
Cross-currency swaps	15,862	118,000

(All amounts in thousands Euro unless otherwise expressed)

13. LONG TERM DEBT

Long term debt as of December 31, 2005 consisted of the following:

	Currency	December 31, 2005
Syndicated loan to Intracom Telecom(1)	USD	102,506
Syndicated loan to Conklin(2)	USD	5,934
Less: amounts maturing within one year		(5,934)
Long term debt, net of current portion		**102,506**

For the syndicated loan to Intracom Telecom the participating banks are the following:

BANK	EUR
Alpha Bank	35,500
National Bank	30,000
Commercial Bank	30,000
Societe Generale-Geniki Bank	22,500
Total	**118,000**

For the syndicated loan to Conklin Corporation (Conklin) the participating banks are the following:

BANK	EUR
Societe.General-Geniki Bank	2,967
Piraeus Bank	1,695
Omega Bank	1,272
Total	**5,934**

(1) In 2002, Intracom Holdings entered into a syndicated loan agreement for the amount of €153,500 (USD 157,307). The participating banks were Citibank, Alpha Bank, National Bank of Greece, Commercial Bank of Greece, and Societe Generale-Geniki Bank. In March 2004, Citibank's participation of €35,500 was repaid, thus the total outstanding nominal amount of the loan since March 2004 has been €118,000 (USD 120,926). In December 2005, the banks consented to the change of the borrower from Intracom Holdings to Intracom Telecom. The loan is guaranteed by Intracom Holdings. The loan bears interest of LIBOR + 1.5% per annum and the maturity date was January 23, 2006.

A new Amendment Agreement was completed, according to which the loan is maturing on January 23, 2007 but the Final Maturity date can be extended for a further year until January 23, 2008. There is a cross currency interest rate swap agreement between the Group and Alpha Bank which has been accounted for at fair value (see Note 12).

(2) The loan to Conklin is payable in two installments of USD 3,500 in August 2006 and 2007, and bears interest at Libor plus 1.35%. Since Conklin was not in compliance with the financial covenant mentioned below, the full amount of the loan has been classified as current.

Financial Covenants

The loan agreement for the syndicated loan to Conklin specifies that the ratio of Total Bank Debt/ Net Tangible Worth, as defined in the agreement, must not be greater than 2:1 for the duration of the loan.

(All amounts in thousands Euro unless otherwise expressed)

14. LEASE OBLIGATIONS

Operating leases

The operating lease obligations as of December 31, 2005 are presented as follows:

Year ending December 31,	
2006	781
2007	573
2008	276
2009	110
2010	—
	1,740

There are no lease obligations after 5 years.

Capital leases

The capital lease obligations as of December 31, 2005 are presented as follows:

Years ending December 31,	
2006	2,375
2007	2,364
2008	1,668
2009	9,906
Total future minimum lease payments	16,313
Less: amount representing interest	(2,535)
Present value of net minimum lease obligations	13,778
Less: current portion of lease obligations	(1,687)
Long-term portion of lease obligations	12,091

15. INCOME TAX

The Group's provision for income taxes for the year ended December 31, 2005 is as follows:

	2005
Current expense	(1,013)
Deferred benefit	4,160
Total income tax benefit	3,147

A statutory income tax rate of 32% was applicable to income before income tax and minority interest. The difference between the statutory income tax rate and effective income tax rate of 48% is largely due to the valuation allowances on tax losses that will not be recognised.

(All amounts in thousands Euro unless otherwise expressed)

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

	December 31, 2005
Deferred tax assets	
Tax losses	13,248
Reversal of land revaluation	10,569
Inventory write-downs	6,336
Goodwill	6,053
Intangible assets	2,459
Accrued expenses	2,307
Provisions	1,877
Other	2,585
Less: valuation allowances on tax losses	(11,232)
Less: valuation allowances on goodwill	(6,053)
Less: valuation allowances on other	(1,724)
Total deferred tax assets	**26,425**
Deferred tax liabilities	
Undistributed untaxed profits	(10,104)
Accelerated depreciation and amortization	(1,340)
Accrued income	(244)
Other	(575)
Total deferred tax liabilities	**(12,263)**
Net deferred tax assets, current	5
Net deferred tax assets, long-term	14,174
Net deferred tax liabilities, current	12
Net deferred tax liabilities, long-term	5
Reconciliation of deferred tax balance	
Deferred tax balance January 1, 2005	10,002
Credited to statement of operations	6,086
Charged to statement of operations	(1,926)
Deferred tax balance December 31, 2005	14,162

Intracom Telecom has computed a deferred tax asset related to tax losses of €6,953 out of the total tax losses carry forwards of approximately €10,953. According to management estimations, it is less likely than not that the remaining tax losses of €4,000 will be utilized against taxable profits in the next five years and a valuation allowance has been provided against these losses. The expiration date of the above tax losses is December 2010.

Conklin has federal net operating losses carry forwards of approximately €27,380 at December 31, 2005, which begin to expire in December 31, 2020. Management has created a valuation allowance on the respective deferred tax assets as it is less likely than not that such losses will be utilized against Conklin's future taxable profits.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The Group's subsidiaries have undistributed retained earnings for which a deferred tax liability of approximately €1,551 has not been recognized.

(All amounts in thousands Euro unless otherwise expressed)

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

16. RELATED PARTY TRANSACTIONS

Amounts due from/to related parties relate mainly to companies under common shareholding. The most significant transactions with related parties derived from the normal course of business are as follows:

	2005
Sales of services and goods	
Sales of services	3,714
Sales of telecommunication equipment	8,758
Purchases of services and goods	
Purchases of merchandise	1,070
Purchases of raw materials	1,241
Purchases of services	8,954
Purchases of tangible and intangible assets	11,286

As shown in Note 10, included in accrued expenses and other current liabilities as of December 31, 2005 are payables to related parties amounting to €26,913. These are analyzed as follows:

	December 31, 2005
Intracom Holdings S.A.	12,147(1)
Intrakat S.A.	4,823(1)
Intracom Holdings S.A.—other charges	2,801(2)
Other	7,142
Total	**26,913**

(1) Amounts to these related parties arise from various transactions related to the legal reorganisation.

(2) These mainly relate to amount payable to Intracom Holdings S.A., for various services, as well as a result of various payments and receipts carried out by Intracom Holdings on behalf of the Group.

Other related party transactions

Included in accounts payables as of December 31, 2005 are payables for services received and products shipped from Intracom Holdings related parties in the amounts of € 30,202. These mostly represent services received from Intralot S.A. (a related company of Intracom Holdings) in relation to computer software development as well as the renewal of existing software (development of new editions) associated with the existing contract between Intracom Telecom and CNLR for the support of the Romanian lottery.

Included in trade receivables as of December 31, 2005 are receivables for services rendered and products shipped to Intracom Holdings related parties in the amounts of €38,934. These transactions mostly represent the frame contract signed with Intralot S.A. which relates to sophisticated software development and sale of the hardware "Coronis'. Intralot S.A. is one of the world's largest service providers of electronic gambling games (lottery, video lottery etc.). Management anticipates no loss in respect of receivables from these entities.

(All amounts in thousands Euro unless otherwise expressed)

Included in receivables from related parties as of December 31, 2005 are receivables mainly from Intracom Defense S.A. and Intracom IT Services S.A., subsidiaries of Intracom Holdings, in the aggregate amount of €4,454. These receivables mostly represent inventories owned by Intracom Telecom which were sold or consumed in the production process of Intracom Defense S.A. and Intracom IT Services S.A. Management anticipates no loss in respect of receivables from these entities.

17. COMMITMENTS AND CONTINGENCIES

Capital commitments

There are no capital commitments contracted for at the balance sheet date but not yet incurred.

Legal proceedings

Hellenic Telecommunications Company S.A. ("OTE") is currently involved in a proceeding against Intracom Holdings with regard to an action for a claim of Greek Drachma 5,297,381,421 (approximately €15,500) plus interest, originally filed in 1994 by O.T.E. before the Athens Multi Member Court of First Instance for an alleged breach of contract. On December 14, 1995 the relevant Court of First Instance dismissed the claim for interest, ruled that in case the action is upheld then the amount upheld should be delivered to OTE in the form of products free of charge and commenced the discovery procedures (the gathering of witness statements). The discovery procedures commenced in November 1996 and are still continuing. A final decision is not expected for at least two years and, in any case, will be subject to appeal. According to the Group's legal advisor opinion the above claim will not be accepted by the Court.

The above claim relates to the telecommunications segment and has been assumed by the Group.

There are various other outstanding court cases against or in favour of the Group, the amounts of which will not materially affect the financial position of the Group.

18. WARRANTIES AND EMPLOYEE-RELATED LIABILITIES

An analysis of the movement of warranties and employee-related liabilities for the year ended December 31, 2005 is presented below:

	Warranties	Unused compensated absences	Retirement benefit obligation	Early retirement provision	Other	Total
Balance at 1 January 2005	3,406	223	4,511	3,741	143	12,024
Additions	1,496	—	652	171	3	2,322
Changes in estimate	563	—	(975)	—	—	(412)
Provision utilised during the year	(2,630)	—	(250)	(3,912)	(77)	(6,869)
Balance at 31 December 2005	2,835	223	3,938	—	69	7,065

Early retirement provision

According to a decision of the management of Intracom Holdings which was announced to the employees on November 1, 2004, a voluntary redundancy compensation program was set up. The total cost of this program was recorded in 2004. The amount of € 3,741 represents the cost of this program applicable to employees assigned directly to the Group.

(All amounts in thousands Euro unless otherwise expressed)

Retirement benefit obligation

This relates to the post retirement benefit payable on the event of termination or retirement (see Note 2). The change in the projected benefit obligation is presented in the following table:

	2005
Projected benefit obligation, January 1, 2005	4,511
Service cost	477
Interest cost	175
Losses on curtailment	(975)
Benefit payments	(250)
Projected benefit obligation, December 31, 2005	3,938

As at December 31, 2005 the accumulated benefit obligation amounted to €3,061.

	December 31, 2005
Principal actuarial assumptions	
Discount rate	3.70%
Future salary increases	4.50%
Voluntary resignation/dismissal	
Age till 30 years	11.20%
Age 31 to 50 years	5.70%
Age 51 and up	2.20%

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

Year ending December 31,	
2006	403
2007	440
2008	480
2009	530
2010	580
2011 onwards	1,505
Net cost	**3,938**

19. CONCENTRATIONS

Three customers of the Group accounted for total revenues of €142,999, which represent 51.4% of the Group's combined consolidated revenues for the year ended December 31, 2005. Trade receivables from these customers amounted to €243,845 as of December 31, 2005.

20. SUBSEQUENT EVENTS

On February 13, 2006, Intracom Holdings and JSC Sitronics, the technology arm of Sistema, announced that the companies had reached a non-binding agreement in principal for the acquisition by JSC Sitronics of a 51% stake in Intracom Telecom for approximately €120,000. In June 2006, the agreement was signed. The amount payable will be determined following the completion of financial due diligence.

In June 2006, a subsidiary assigned the rights to an aircraft acquired under a capital lease to Intralot Inc. (a related party of Intracom Holdings) who in turn, assumed the remaining lease obligations and other assets related to the aircraft. At the time of the assignment, the net book value of the aircraft was approximately €14,200, the capital obligation was approximately €11,500 and other assets related to the aircraft were approximately €90.

In December 2006, the Company became a subsidiary guarantor (jointly and severally with the Parent Guarantor) of JSC Concern Sitronics U.S. Dollars 200 million notes issued and placed on the London Stock Exchange which are due in 2009.

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