

Public Joint Stock Company
“Southern Telecommunications Company”

Unaudited Consolidated Financial Statements

For the six months ended June 30, 2006

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"UTK" PJSC
Unaudited Consolidated Balance Sheet
As of June 30, 2006
(in thousands rubles)

	Notes	30 June 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	3	32,148,825	33,081,215
Intangible assets and goodwill		1,810,533	1,637,489
Investments in associates	4	542,324	578,761
Long-term investments	5	45,962	45,421
Long-term accounts receivable and other financial assets	6	346,095	495,064
Long-term advances given		218,385	212,288
Total non-current assets		35,112,124	36,050,238
Current assets			
Inventories	7	792,842	860,130
Accounts receivable	8	1,263,767	755,722
Short-term investments		1,256	1,256
Prepaid income tax		113,840	131,228
Other current assets	9	881,506	1,155,939
Cash and cash equivalents	10	473,638	772,082
Total current assets		3,526,849	3,676,357
TOTAL ASSETS		38,638,973	39,726,595
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	11	3,039,255	3,039,255
Unrealized gain on available-for-sale investments		5,395	5,395
Retained earnings		6,870,313	6,598,637
Total equity attributable to equity holders of the parent		9,914,963	9,643,287
Minority interest		9,996	12,068
Total equity		9,924,959	9,655,355
Non-current liabilities			
Long-term borrowings	12	10,666,487	8,454,716
Long-term finance lease obligations		1,676,691	2,071,503
Pension liabilities		946,210	868,052
Deferred revenue		357,886	377,651
Deferred income tax liability		931,856	992,104
Other non-current liabilities		80,968	100,042
Total non-current liabilities		14,660,098	12,864,068
Current liabilities			
Accounts payable, accrued expenses and advances received	13	2,376,980	3,084,511
Payables to Rostelecom		760,042	134,906
Income tax payable		4,304	375
Other taxes payable	14	430,513	575,046
Dividends payable		88,403	30,067
Short-term borrowings	12	2,715,185	2,227,161
Current portion of long-term borrowings	12	6,822,907	10,141,593
Current portion of long-term finance lease obligations		855,582	1,013,513
Total current liabilities		14,053,916	17,207,172
Total Liabilities		28,714,014	30,071,240
TOTAL EQUITY AND LIABILITIES		38,638,973	39,726,595

General Director _____ Andreev A. V.

Chief Accountant _____ Rusinova T. V.

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

"UTK" PJSC

Unaudited Consolidated Profit and Loss Statement For the first six months of 2006

(in thousands rubles except per share amounts)

	Notes	6m2006	6m2005
Revenues	15	8 551 497	8 976 500
Wages, salaries, other employee benefits and payroll taxes		(2 814 523)	(2 853 306)
Depreciation and amortization		(1 736 282)	(1 398 893)
Materials, repairs and maintenance, utilities		(1 081 647)	(977 696)
Taxes other than income tax		(389 015)	(347 865)
Interconnection charges - national operators		(338 788)	(1 236 302)
Provision for impairment of receivables		55 990	(299 992)
Loss on disposal of property, plant and equipment		10 932	(18 536)
Other operating expenses	16	(1 101 341)	(859 279)
Operating profit		1 156 823	984 631
Share of result of associates		42 506	51 421
Interest expense, net	17	(924 171)	(1 516 431)
Gain (loss) on financial investments		1 286	(3 270)
Foreign exchange gain (loss), net		28 905	20 930
Profit before income tax		305 349	(462 719)
Income tax expense		25 300	76 721
Profit (loss) for the reporting period		330 649	(385 998)
Attributable to:			
Equity holders of the parent		332 721	(387 142)
Minority interests		(2 072)	1 144
Profit (loss) for the reporting period		330 649	(385 998)
Profit (Loss) per share			
basic and diluted, for loss for the year attributable to equity holders of the parent		0,09	(0,10)

General Director _____ Andreev A. V.

Chief Accountant _____ Rusinova T. V.

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

"UTK" PJSC
Notes to Unaudited Consolidated Financial Statements
for the first six months of 2006

1. General Information

Authorization of Accounts

The unaudited financial statements are presented by PJSC "Southern Telecommunications Company" (hereafter - "Southern Telecommunications Company") and its subsidiaries (together - the "Company") for the first six months of 2006.

Basis of Preparation

The financial statements of PJSC "Southern Telecommunications Company" for 6 months of 2006 according to IFRS are presented as the balance sheet, profit and loss statement and notes to the financial statements. These financial statements do not contain all disclosures required by IFRS for interim reports. However, the scope of these statements is sufficient to gain a clear view of the Company's financial standing and its operating results for the first six months of 2006.

These reports are unaudited consolidated financial statements of PJSC "Southern Telecommunications Company". No audit, examination or any other relevant procedures will be performed in respect of the financial statements. At the same time the Company believes that taking into account UTK's experience in IFRS reporting users can rely on these financial statements.

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

When preparing these unaudited consolidated financial statements, "UTK" PJSC used less procedures than could have been used in preparing annual consolidated financial statements. In this context, "Southern Telecommunications Company" PJSC used some assumptions, including those concerning the fair value of property, plant and equipment. The actual figures of the financial reporting for the year ended December 31, 2006 may differ from the figures in these financial statements due to adjustments of the assumptions used by the Company and appearance of some new information.

The content of the notes to the unaudited consolidated financial statements of "UTK" PJSC do not contain all disclosures required by the International Financial Reporting Standards. The content of the notes to the annual consolidated financial statements of "Southern Telecommunications Company" PJSC may disclose information in the volume larger than disclosed in these unaudited consolidated financial statements of "UTK" PJSC.

2. Subsidiaries

Subsidiaries comprised the following at June 30, 2006:

Subsidiary	Main activity	Ownership, %		Voting Shares, %	
		6m 2006	2005	6m2006	2005
CJSC “Armavirskiy Zavod Svyazi”	Cable production	100	100	100	100
CJSC “Yugsvyazstroy”	Construction services	100	100	100	100
OJSC “Orbita” Recreational House”	Recreational services	100	100	100	100
OJSC “Stavtelecom named after V.I.Kuzminov” (OJSC “Stavtelecom”)	Local, intercity communications, data transfer	100	100	100	100
LLC “Intmashservice”	Communication facilities repairs and support	100	100	100	100
LLC “Faktorial- 99”	Informational and commercial agency activity	100	100	100	100
LLC “YuTC-Finance”	Financial Service	100	100	100	100
CJSC TRC “Photon”	Commercial TV and radio broadcasting services	51	51	51	51
LLC TO “Akcent”	Commercial TV and radio broadcasting services	51	51	51	51

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

3. Property, Plant and Equipment

The Company has applied an exemption permitted by IFRS 1 which allows an entity to measure property, plant, and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost.

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

	Land, buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles and other	Total
Net book value at December 31,2004 (adjusted)	14,844,980	11,619,778	4,943,803	2,147,935	33,556,496
Net book value at December 31,2005	16,627,628	11,571,663	2,623,472	2,258,452	33,081,215
Net book value at June 30, 2004	16,617,177	9,067,402	3,037,293	3,426,953	32,148,825

In the first half of 2006, the Company increased construction in progress by the amount of capitalized interest totaling 139,270 (2005 – 323,225).

The net book value of plant and equipment held under finance leases at June 30, 2006 was 4,287,429 (2005 - 4,482,682). Leased assets are pledged as collateral for the related finance lease obligations.

4. Investments in Associates

Investments in associates comprised the following at June 30, 2006:

	6m2006	2005
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Associate	Activity	Voting Shares	Carrying value	Voting Shares	Carrying value
CJSC "Volgograd GSM"	Cellular services (GSM)	50%	506,302	50%	545,049
OJSC "TeleRoss Kubanelektrosvyaz"	Telecommunication services	50%	21,547	50%	17,186
CJSC "Stavropol cellular communications"	Cellular services (AMPS-800 MHz)	50%	10,578	50%	10,937
CJSC "TeleRoss-Volgograd"	Local and intercity communication services	50%	3,476	50%	3,457
CJSC "ZanElCom"	Support of regional network IT systems	45%	17	45%	17
LLC "Yug-Giprosvyaz"	Project engineering	24%	–	24%	–
CJSC "IR Telekinocompaniya"	Commercial TV and radio broadcasting services	24%	–	24%	–
CJSC "Karachayevo-CherkesskTeleSot"	Cellular communications, GSM-900 MHz	20%	404	20%	2,115
CJSC "Kabardino-Balkar GSM"	Cellular communications, GSM-900 MHz	20%	–	20%	–
Total			542,324		578,761

All the above companies are Russian legal entities registered in accordance with Russian legislation.

Movement in investments in associates for the period ended June 30, 2006 is presented below:

	6months 2006	2005
Investments in associates at January 1	578,761	526,876
Share of income net of income tax and dividends received	(36,437)	52,038
Sale of associates	–	(153)
Investments in associates at June 30 (December 31)	542,324	578,761

The share of income net is presented in the P&L statement net of income tax in amount of 42,506 (2005 – 34,687). The dividends received in 2006 comprised 78,943 (2005 – 74, 029).

5. Long-Term and Short-Term Investments

Financial Investments comprised the following at June 30, 2006 and December 31, 2005:

	6m 2006	2005
Long-Term Investments available for sale	45,962	45,421
Total Long-Term Investments	45,962	45,421
Short-Term Investments available for sale	1,256	1,256
Total Short-Term Investments	1,256	1,256
Total Investments	47,218	46,677

6. Long-Term Accounts Receivable and Other Financial Assets

Long-term accounts receivable and other assets comprised the following as of June 30, 2006:

	6m 2006	2005
Long-term accounts receivable	330,059	470,815
Long-term loans given to employees	9,623	11,424
Other long-term financial assets	6,413	12,825

Total	346 095	495 064
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Long-term loans given to employees are accounted at amortized cost using the effective interest rate of 20% as of June 30, 2006 (2005 – 21%).

7. Inventories

Inventories comprised the following as of June 30, 2006:

	6m 2006	2005
Cable, materials and spare parts for telecommunications equipment	287,645	297,915
Finished goods and goods for resale	76,693	91,676
Other inventories	428,504	470,539
Total	792,842	860,130

Provision for inventory obsolescence is presented as other operating expenses in the Consolidated profit and Loss Statement.

8. Accounts Receivable

Accounts receivable comprised the following as of June 30, 2006:

	6m2006	2005
Trade receivables – telecommunication services	1,788,340	1,321,056
Trade receivables – other	118,983	140,543
Provision for impairment of receivables	(643,557)	(705,877)
Total	1,263,767	755,722

Trade Accounts receivable for telecommunication services were due from the following major customer groups as of June 30:

	6m2006	2005
Corporate customers	890,837	249,798
Residential customers	285,781	422,221
Government customers	611,722	649,037
Total	1,788,340	1,321,056

9. Other Current Assets

Other current assets comprised the following as of June 30, 2006:

	6m2006	2005
VAT receivable	472,074	804,300
Deferred expenses	115,045	116,733
Prepayments and advance payments	121,536	80,438
Other prepaid taxes	13,793	12,109
Settlements with personnel	10,236	5,616
Short-term loans given	–	379
Other receivables and current assets	148,822	136,364

Total	881,506	1,155,939
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10. Share capital

Total number of outstanding shares is as follows: 2,960,513,000 ordinary shares and 972,152,000 preference shares. All shares have a par value of 0.33 Rubles. Total par value of all outstanding ordinary and preferred shares was 976,969 and 320,810 as of June 30, 2006 and December 31, 2005, respectively.

11. Borrowings

As of June 30, 2006 and December 31, 2005 borrowings comprised the following:

	Interest rate	6m2006	2005
<i>Short-term borrowings</i>			
Bank loans:			
Bank loans (Rubles)	7.5% - 10.25%	905,200	645,998
Total bank loans		905,200	645,998
Promissory notes (Rubles)	10.75% - 14.21%	1,109,819	925,138
Interest payable		699,988	656,025
Total short-term borrowings		2,715,185	2,227,161
<i>Long-term borrowings</i>			
Bank loans:			
Bank loans (Rubles)	10.5% - 13.1%	5,182,886	5,836,172
Total bank loans		5,182,886	5,836,172
Bonds (Rubles)	10% - 14.24%	11,308,166	11,356,778
Vendor financing:			
Vendor financing (Euro)	5.9% - 8.5%	948,527	950,541
Total vendor financing		948,527	950,541
Promissory notes:			
Promissory notes (US Dollars)	5.9%	–	218,602
Promissory notes (Rubles)	12.2% - 12.7%	–	183,860
Total promissory notes		–	402,462
Other loans (RUR)	14% - 21%	49,815	50,356
Less: Current portion of long-term borrowings		(6,822,907)	(10,141,593)
Total long-term borrowings		10,666,487	8,454,716

As of June 30, 2006 the Company's borrowings are denominated in the following currencies:

	6m2006	2005
Russian Rubles	19,080,495	19,476,718
Euro	1,124,084	1,128,150
US dollars		218,602
Total	20,204,579	20,823,470

12. Accounts Payable and Accrued Expenses

Accounts payable and other current liabilities comprised the following as of June 30:

	6 m2006	2005
Accounts payable to equipment suppliers and constructors	605,677	1,396,781
Salaries and wages	682,477	743,979
Trade accounts payables	448,198	373,087
Advances received from subscribers	370,141	361,175
Universal service fund contribution	180,727	136,980
Other accounts payable	89,760	72,509
Total	2,376,980	3,084,511

13. Other Taxes Payable

Taxes payable comprised the following as of June 30:

	6 m 2006	2005
Value added tax	65,036	272,254
Property tax	178,619	172,533
Unified social tax	105,098	64,648
Personal income tax	56,513	35,309
Other taxes	25,247	30,301
Total	430,513	575,046

The amount of value added tax payable includes value added tax in the amount of 40,131 (2005 – 162,341), which represents deferred value added tax that is only payable to the tax authorities when the underlying receivables are recovered or written off.

14. Revenues

Revenues for the years 2005 and 2006 comprised the following:

By revenue types	6months2006	6months 2005
Local telephone calls	3,693,064	3,030,693
Long distance telephone services – domestic	–	2,887,794
Services to national operators	1,819,244	281,920
Intra-zonal telephone services	974,529	–
New services	708,511	623,831
Long distance telephone services – international	–	559,965
Data transfer and telemetric services	230,565	80,434
Installation and connection fees	221,971	343,584
Rent of telephone channels	211,167	400,136
Other telecommunications services	259,048	212,635
Radio and TV broadcasting	122,640	98,960
Revenue from rent of assets	62,134	54,916
Recreational services	58,989	44,100
Construction services	36,048	92,538
Agency fees	22,913	13,123
Documentary services	21,764	27,276
Sale of goods	8,571	14,442
Cellular services	2,623	3,523
Other revenues	97,716	206,630
Total	8,551,497	8,976,500

15. Other Operating Expenses

Other operating expenses comprised the following:

	<u>6m2006</u>	<u>6m2005</u>
Fire and other security services	123,481	128,486
Lease of premises	96,543	81,048
Universal service fund contribution	79,494	–
Agency fees	39,561	31,831
Business travel expenses and representation costs	28,912	20,870
Advertising expenses	24,695	18,470
Insurance	21,490	49,060
Audit and consulting fees	21,181	54,493
Transportation services	21,174	25,327
Charitable contributions	14,339	23,471
Education expenses	10,946	14,140
Other expenses	619,523	443,914
Total	1,101,341	859,279

Other expenses include expenses related to fines and penalties, post services, social expenditure, billing and cash collection services and other operating expenses.

16. Interest Expense, net

Interest expense, net comprised the following:

	<u>6m2006</u>	<u>6m2005</u>
Interest income	(1,157)	(4,844)
Interest expense on loans	631,595	1,201,234
Interest expense on finance leases	293,733	320,041
Total	924,171	1,516,431