

OJSC “VolgaTelecom”

Non-audited consolidated financial statement

For 6 months ended June 30, 2006.

OJSC “VolgaTelecom”

Non-audited consolidated financial statement

For 6 months ended June 30, 2006.

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OJSC “VolgaTelecom”
Non-audited consolidated balance sheet
As of June 30, 2006 and 2005.

(In thousand rubles)

	June 30, 2006	December 31, 2005
ASSETS		
Non-current assets		
Property, plant and equipment	28 628 418	28 525 610
Intangible assets and goodwill	3 102 052	2 745 615
Investments in associates	122 476	119 980
Long-term investments	70 490	24 910
Long-term accounts receivable and other assets	20 960	20 835
Long-term advances given	829 024	749 055
Deferred income tax asset	20 503	27 049
Total non-current assets	32 793 923	32 213 054
Current assets		
Inventories	568 595	544 087
Accounts receivable	1 590 150	1 296 011
Other current assets	1 354 171	1 577 657
Cash and cash equivalents	448 237	1 338 713
Total current assets	3 961 153	4 756 468
Total assets	36 755 076	36 969 522
EQUITY AND LIABILITIES		
Preference shares	963 366	963 366
Ordinary shares	2 890 324	2 890 324
Unrealized gain on available-for-sale investments	2 134	2 134
Capital surplus, retained earnings and other provisions	15 400 508	14 507 125
Total equity attributable to equity holders of the parent company	19 256 332	18 362 949
Minority interest	448 110	415 614
Total equity	19 704 442	18 778 563
Non-current liabilities		
Long-term borrowings	7 187 215	7 589 666
Long-term finance lease obligations	666 803	727 768
Pension liabilities	899 679	827 392
Deferred revenue	323 476	331 618
Deferred income tax liability	1 351 458	1 336 072
Total non-current liabilities	10 428 631	10 812 516
Current liabilities		
Accounts payable and accrued expenses	2 796 367	2 574 536
Payables to Rostelecom	0	108 100
Income tax payable	3 222	76 541
Other taxes payable	522 836	812 712
Dividends payable	654 004	63 641
Short-term borrowings	1 353 886	683 741
Current portion of long-term borrowings	924 298	2 699 872
Current portion of long-term finance lease obligations	367 390	359 300
Total current liabilities	6 622 003	7 378 443
Total liabilities	17 050 634	18 190 959
TOTAL EQUITY AND LIABILITIES	36 755 076	36 969 522

General Director _____ Omelchenko S.V. Chief accountant _____ Popkov N.I.

The accompanying notes form an integral part of this consolidated financial statement.

OJSC “VolgaTelecom”
Non-audited consolidated income statements for 6 months of 2006 and 2005.
(In thousand rubles)

	6 months of 2006	6 months of 2005
Revenues	11 539 167	11 333 371
Wages, salaries, other benefits and payroll taxes	(3 980 953)	(3 763 281)
Depreciation and amortization	(2 055 643)	(1 584 621)
Materials, repairs and maintenance, utilities	(1 192 405)	(1 013 413)
Taxes other than income tax	(305 252)	(300 997)
Interconnection charges – international companies	(479 178)	(1 335 091)
(Expenditure) recovery of provision for doubtful accounts	98 910	(62 157)
Gain (loss) on disposal of property, plant, and equipment	(56 469)	(198 996)
Other operating income (expense)	(1 107 825)	(1 003 911)
Operating profit	2 460 352	2 070 904
Share of result of associates	2 496	7 558
Interest expense, net	(341 885)	(428 613)
Gain on sale of subsidiaries, associates and other investments	1 055	74 501
Foreign exchange gain (loss), net	23 831	18 401
Other income (expense), net	-	-
Profit before income tax	2 145 849	1 742 751
Income tax expense	(630 067)	(658 837)
(Expense) consideration for income tax – current tax	(608 136)	(397 585)
(Expense) consideration for income tax – deferred tax	(21 931)	(261 252)
Profit (loss) for the reporting period	1 515 782	1 083 914
Profit (loss) attributable to equity holders of the parent company	1 482 174	1 046 669
Profit (loss) attributable to minority interests of subsidiaries	33 608	37 245
Profit (loss) for the reporting period	1 515 782	1 083 914

General Director _____ Omelchenko S.V. Chief accountant _____ Popkov N.I.

The accompanying notes form an integral part of this consolidated financial statement.

OJSC “VolgaTelecom”

Notes to non-audited consolidated financial statement for 6 months of 2006.

1. General information

Authorization of accounts

Non-audited consolidated financial statement of OJSC “VolgaTelecom” (the “Company”) and its subsidiaries (jointly – the “Group”) is drawn up for 6 months of year 2006.

Basis of non-audited consolidated financial statement preparation

IFRS OJSC “VolgaTelecom” statement for 6 months of year 2005 is presented in balance sheet, income statement and also notes to the financial statement. This statement does not contain all IFRS required disclosures; however, its volume is sufficient to have the idea of financial standing and the results of the Company’s activity for 6 months of year 2006.

This statement is a non-audited consolidated financial statement of OJSC “VolgaTelecom”. The procedures of audit, review or other similar procedures will not be applied to the statement. At the same time taking into account OJSC “VolgaTelecom” experience in presenting IFRS statements, the Company believes that the users of the financial statement may rely on it.

This financial statement is drawn up on the basis of the data of accounting and accounting statement maintained and drawn up in accordance with the system of regulation of accounting records as established by Russian Federation legislation, by additional adjustment and rearrangement of accounting data required for reflection of financial standing, activity results and cash flow in accordance with IFRS requirements.

When preparing this non-audited consolidated financial statement OJSC “VolgaTelecom” carried out smaller volume of procedures than could have been carried out when preparing annual consolidated financial statement. In this connection OJSC “VolgaTelecom” made assumptions, including - fair value of assets and liabilities of acquired subsidiaries and associates, the cost of obligations for retirement benefit plan, deferred revenue, provisions for depreciation of fixed assets, inventories and accounts receivable. Actual values of financial statement for the year ended on December 31, 2006 may differ from the values of this financial statement due to adjustment of information about the assumptions made by the Company and occurrence of other new information.

The content of notes to non-audited consolidated financial statement of OJSC “VolgaTelecom” does not disclose the entire completeness of the information, the disclosure of which is required to meet IFRS. The content of notes to annual consolidated financial statement of OJSC “VolgaTelecom” may disclose the information in larger volume than it is disclosed in this non-audited consolidated financial statement of OJSC “VolgaTelecom”.

OJSC “VolgaTelecom”
Notes to non-audited consolidated financial statement for 6 months of 2006
(In thousand rubles)

2. Subsidiaries

The proposed consolidated financial statement includes property, obligations and the results of activity of OJSC “VolgaTelecom” subsidiaries listed below:

Subsidiary	Main activity	Ownership, %		Voting shares, %	
		2006	2005	2006	2005
CJSC “Nizhegorodskaya Sotovaya Svyaz” (NCC)	Cellular services (GSM-900)	100	100	100	100
CJSC “Tsifrovye Telecommunicatsii”	Local telephone network services	100	100	100	100
CJSC “Telesvyazinform”	Cable and air TV services	100	100	100	100
LLC Russian-American JV “Izhcom”	Data transfer services	100	100	–	–
LLC “Vyatka-Page”	Paging services	100	100	–	–
CJSC “Transsvyaz”	Local telephone network services	80	80	80	80
OJSC “OMRIX”	Local telephone network services	74	74	74	74
CJSC “Ulyanovsk-GSM”	Cellular services (GSM-900)	60	60	60	60
CJSC “Orenburg-GSM”	Cellular services (GSM-900)	51	51	51	51
OJSC “TATINCOM-T”	Cellular services (GSM-900)	50+1 share	50+1 share	50+1 share	50+1 share
CJSC “Narodnyi Telephone Saratov”	Cellular services (CDMA)	50+1 share	50+1 share	50+1 share	50+1 share
CJSC “Nizhegorodskiy Radiotelephone”	Local telephone network services	50	50	50	50
CJSC “Chery - Page”	Paging services	50	50	50	50
CJSC “RTCOM”	Communication services	100	100	100	100
LLC “Nizhegorodskiy teleservice”	Communication services	100	100	-	-

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

3. Property, Plant and Equipment.

Property, plant and equipment are stated at acquisition or construction cost less accumulated depreciation and any impairment in value. For property, plant and equipment acquired prior to January 1, 2003 the fair value as of January 1, 2003 is used as actual value in accordance with the exception stipulated by IFRS 1.

The Company applied the exception permitted by IFRS 1 allowing for the organization to evaluate property, plant and equipment as of the date of transition to IFRS at fair value and to use this fair value as the actual value of property, plant and equipment.

Management assumes that carrying value of all property, plant and equipment of the Company is approximately comparable with their fair value, but, nevertheless, it intends to involve an independent appraiser to confirm this fair value and accordingly the carrying value of property, plant and equipment may be subject to adjustments.

OJSC “VolgaTelecom”

Notes to non-audited consolidated financial statement for 6 months of 2006

(In thousand rubles)

	Land, buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles and other	Total
Original cost					
At December 31, 2005	14 434 817	15 892 522	1 424 394	4 483 353	36 235 086
Additions	-	-	2 185 891	-	2 185 891
Additions due to acquisition of subsidiaries	-	-	-	-	-
Disposals	(120 030)	(129 152)	(2 219)	(108 089)	(359 490)
Disposals due to sale of subsidiaries	-	-	-	-	-
Commissioned	276 349	832 389	(1 343 523)	234 785	-
At June 30, 2006	14 591 136	16 595 759	2 264 543	4 610 049	38 061 487
Accumulated Depreciation					
At December 31, 2005	(1 742 319)	(4 344 744)	-	(1 622 413)	(7 709 476)
Charge for the year	(466 754)	(1 174 689)	-	(296 390)	(1 937 833)
Charge due to acquisition of subsidiaries	-	-	-	-	-
Disposals	76 494	65 620	-	72 126	214 240
Disposals due to sale of subsidiaries	-	-	-	-	-
At June 30, 2006	(2 132 579)	(5 453 813)	-	(1 846 677)	(9 433 069)
Book value as of December 31, 2005	12 692 498	11 547 778	1 424 394	2 860 940	28 525 610
Book value as of June 30, 2006	12 458 557	11 141 946	2 264 543	2 763 372	28 628 418

4. Intangible Assets and Goodwill

	Goodwill	Licenses	Software	Other	Total
Original cost					
At December 31, 2005	367 005	185 710	2 293 666	99 898	2 946 279
Additions	-	39 439	472 331	7 803	519 573
Disposals	-	(88)	(17 755)	(4 951)	(22 794)
At June 30, 2006	367 005	225 061	2 748 242	102 750	3 443 058
Accumulated amortization					
At December 31, 2005	-	(48 972)	(119 920)	(31 772)	(200 664)
Charge for the year	-	(10 673)	(130 465)	(4 107)	(145 245)
Disposals	-	-	4 903	-	4 903
At June 30, 2006	-	(59 645)	(245 482)	(35 879)	(341 006)
Book value					
At December 31, 2005	367 005	136 738	2 173 746	68 126	2 745 615
Book value					
At June 30, 2006	367 005	165 416	2 502 760	66 871	3 102 052

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(In thousand rubles)

Carrying amount of goodwill was distributed between cash-generating subsidiaries in the following way:

Subsidiary	Carrying amount of goodwill	
	2006	2005
OJSC “TATINCOM-T”	323 811	323 811
CJSC “RTCOM”	33 075	33 075
LLC “Nizhegorodskiy teleservice”	8 833	8 833
Other subsidiaries	1 286	1 286
Total	367 005	367 005

As of June 30, 2006 no impairment was identified by the Company after the testing of OJSC “TATINCOM-T”, CJSC “RTCOM” and LLC “Nizhegorodskiy teleservice” and other subsidiaries for impairment.

5. Investments in Associates

Investments in associates at June 30, 2006 and 2005 comprised the following:

Associate	Activity	2006		2005	
		Voting shares, %	Carrying value	Voting shares, %	Carrying value
CJSC “Samara Telecom”	Local telephone network services	28%	103 062	28%	96 925
ACB “S-Bank”	Banking services	42%	18 962	42%	19 178
CJSC “Saratov-Mobile”	Cellular services (AMPS)	50%	-	50%	-
CJSC “Chuvashiya Mobile”	Cellular services (AMPS)	30%	-	30%	-
Other	Cellular services	40%	452	40%	3 877
TOTAL			122 476		119 980

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

The Company has investments in the following associates whose net assets were negative as of June 30, 2006 and 2005:

Name	Activity	Voting shares, %	Net assets as of	
			2006	2005
3CJSC “Saratov-Mobile”	Cellular services (AMPS)	50%	(89 913)	(93 815)
3CJSC “Chuvashiya Mobile”	Cellular services (AMPS)	30%	(17 574)	(19 054)

The carrying value of investments in associates shown in this consolidated financial statement is equivalent to the Company's share in the net assets of the associated company, except for investments in CJSC “Saratov-Mobile” and CJSC “Chuvashiya Mobile”. For these latter associates the carrying amounts of the investments were reduced to zero considering that such associates reported accumulated losses exceeding the cost of the respective investments. The associates have the same financial year as the Company.

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Notes to non-audited consolidated financial statement for 6 months of 2006

(In thousand rubles)

Movement in investments in associates for the years ended June 30, 2006 and 2005 is presented below:

	2006	2005
Investments in associates at January 1	119 980	110 096
Share of income net of income tax, and of dividends received	2 496	20 713
Sale of associates		(10 829)
Investments in associates at June 30	122 476	119 980

6. Long-term investments, net

Company	2006		2005	
	Ownership interest	Carrying value	Ownership interest	Carrying value
OJSC “Natsionalnaya televisionnaya kompaniya “Zvezda”	1,668%	47 682	-	-
OJSC “Informatsionnye Tehnologii Svyazy” (OJSC “Svyazintech”)	13%	14 880	13%	14 880
CJSC “RusleasingSvyaz”	7,3%	12 293	7,3%	12 293
OJSC “AlfaBank” promissory notes	-	2 583	-	2 583
OJSC “Svyaz-bank”	0,05%	3 987	0,05%	3 987
OJSC “Sberbank RF”	-	-	0,0003%	2 137
CJSC “TeleRoss-Samara”	10,0%	990	10,0%	990
CJSC “Reg-time”	17,0%	570	17,0%	570
Other		2 332		2 291
Impairment provision		(14 827)		(14 821)
Total investment available-for-sale		70 490		24 910

Purchase of share in OJSC “Natsionalnaya televisionnaya kompaniya “ZVEZDA”

In accordance with the resolution of the Company’s Board of directors held on 19 January 2006 the Company in January 2006 acquired 352 ordinary shares of OJSC “Natsionalnaya televisionnaya kompaniya “ZVEZDA” for 47 682. In total the Company owns 1,668 % of the charter capital of OJSC “Natsionalnaya televisionnaya kompaniya “ZVEZDA”.

7. Long-term accounts receivable and other assets

As of June 30, 2006 and December 31, 2005 long-term accounts receivable and other assets comprised the following:

	6 months of 2006	2005
Long-term accounts receivable	4 757	5 083
Long-term loans given to employees	16 203	15 752
Total	20 960	20 835

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(In thousand rubles)

8. Inventories

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

	<u>6 months of 2006</u>	<u>2005</u>
Cable, materials and spare parts for telecommunications equipment	212 674	194 382
Construction materials, fuels and instruments	80 017	84 808
Finished goods and goods for resale	59 566	57 455
Other inventories	216 338	207 442
Total	<u><u>568 595</u></u>	<u><u>544 087</u></u>

9. Accounts receivable

Accounts receivable at June 30, 2006 and December 31, 2005 comprised the following:

	<u>6 months of 2006</u>	<u>2005</u>
Trade receivables - telecommunication services	2 688 808	2 521 055
Provision for impairment of receivables	(1 098 658)	(1 225 044)
Total	<u><u>1 590 150</u></u>	<u><u>1 296 011</u></u>

Accounts receivable for telecommunication services detailed by major customer groups are as follows:

	<u>6 months of 2006</u>	<u>2005</u>
Residential customers	939 261	934 046
Corporate customers	778 878	482 771
Government customers	187 491	146 781
Tariff compensation from the state budget	783 178	957 457
Total	<u><u>2 688 808</u></u>	<u><u>2 521 055</u></u>

10. Other Current Assets

As of June 30, 2006 and December 31, 2005 other current assets comprised the following:

	<u>6 months of 2006</u>	<u>2005</u>
VAT receivable	377 225	856 914
Accounts receivable for non-core activities	127 415	259 085
Deferred expenses	131 070	151 866
Prepayments and advance payments	198 643	133 534
Prepaid income tax	253 988	38 813
Other prepaid taxes	18 512	20 346
Settlements with personnel	15 630	13 981
Short-term loans given	16 403	3 869
Other current assets	215 285	99 249
Total	<u><u>1 354 171</u></u>	<u><u>1 577 657</u></u>

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Notes to non-audited consolidated financial statement for 6 months of 2006
(In thousand rubles)

11. Cash and Cash Equivalents

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

	<u>6 months of 2006</u>	<u>2005</u>
Cash at bank and on hand	331 201	1 308 670
Short-term deposits up to three months	117 036	30 043
Other cash		
Total	448 237	1 338 713

12. Share capital

As of June 30, 2006 and December 31, 2005 the total number of outstanding ordinary and preferred shares comprised 245 969 590 and 81 983 404 pieces correspondingly.

All shares have a par value of 5 rubles. The difference between the total par value and the total carrying value of share capital represents the effects of inflation accumulated through January 1, 2003.

Type of shares	Number of shares outstanding (thousands)	Par value of a share (rubles)	Par value	Carrying value
Ordinary	245 970	5	1 229 848	2 890 324
Preferred	81 983	5	409 917	963 366
Total	327 953		1 639 765	3 853 690

OJSC “VolgaTelecom”

Notes to non-audited consolidated financial statement for 6 months of 2006 (In thousand rubles)

13. Borrowings

As of June 30, 2006 and December 31, 2005 short-term loans and borrowings comprised the following:

	Average interest rate	Maturity date	6 months of 2006	2005
<i>Short-term loans and borrowings</i>				
Bank loans:				
Bank loans (rubles)	7.35-17%	2006-2007	1 050 033	559 153
Bank loans (US\$)			-	-
Bank loans (Euro)	6.35%	2006-2007	269 493	76 982
Total bank loans			1 319 526	636 135
Bonds (rubles)	13%	2006	34 024	45 210
Vendor financing:				
Vendor financing (rubles)	10.2-12.24%	2006-2007	275	1 089
Vendor financing (US\$)	5-10.2%	2006-2007	60	61
Vendor financing (Euro)	6-7,35%	2006-2007	1	1
Vendor financing (Japanese yen)				-
Total vendor financing			336	1 151
Promissory notes (US\$)		2006	-	1 245
Total short-term loans and borrowings			1 353 886	683 741

As of June 30, 2006 and December 31, 2005 long-term loans and borrowings comprised the following:

	Average interest rate	Maturity date	6 months of 2006	2005
<i>Long-term borrowings</i>				
Bank loans:				
Bank loans (rubles)	7-25%	2007-2009	2 152 692	2 890 246
Bank loans (US\$)	Libor+5%	2006	18 804	
Bank loans (Euro)	Floating	2007-2009	178 791	307 200
Total bank loans			2 350 287	3 197 446
Bonds (rubles)	0,02-8,64%	2008- 2010	5 262 834	6 262 076
Vendor financing:				
Vendor financing (rubles)	10,2-12,24%	2006-2007	138 997	169 187
Vendor financing (US\$)	6,5-10,2%	2006-2008	183 243	141 158
Vendor financing (Euro)	6,37-7,35%	2007-2008	176 152	259 251
Total vendor financing			498 392	569 596
Promissory notes (US\$)	5,97%	2006	-	260 420
Less : Current portion of long-term loans and borrowings			(924 298)	(2 699 872)
Total long-term loans and borrowings			7 187 215	7 589 666

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(In thousand rubles)

As of June 30, 2006 and 2005 the Company's borrowings are denominated in the following currencies:

	6 months of 2006	2005
Russian rubles	8 638 855	9 926 961
Euro	624 437	643 434
US\$	202 107	402 884
Total	9 465 399	10 973 279

The Company has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

14. Accounts payable and accrued liabilities

As of June 30, 2006 and December 31, 2005 the Company's accounts payable and other current liabilities comprised the following:

	6 months of 2006	2005
Trade accounts payable for capital construction	963 047	894 119
Advances received from subscribers	393 756	432 425
Accounts payable for core activity	523 243	629 470
Salaries and wages	729 065	431 708
Other accounts payable	187 256	186 814
Total	2 796 367	2 574 536

15. Taxes Payable

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

	6 months of 2006	2005
Value-added tax	204 866	630 331
Property tax	133 600	124 708
Personal income tax	59 616	16 161
Unified social tax	118 212	40 240
Other taxes	6 542	1 272
Total	522 836	812 712

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Notes to non-audited consolidated financial statement for 6 months of 2006
(In thousand rubles)

16. Revenues

By revenue types	6 months of 2006	6 months of 2005
Local telephone calls	4 385 213	3 354 284
Long distance telephone services - domestic	-	3 063 096
Intrazonal telephone calls	1 096 190	-
Cellular services	1 659 719	1 350 951
Installation and connection fees	372 857	663 012
New services	880 477	552 588
Revenues from national operators	2 057 101	664 878
Long distance telephone services - international	-	380 761
Radio and TV broadcasting	257 474	251 806
Rent of telephone channels	181 102	193 251
Data transfer and telematic services	107 192	105 311
Documentary services	20 615	28 422
Other telecommunications services	385 792	350 673
Other revenues	135 434	374 338
Total	11 539 166	11 333 371

17. Other Operating Expenses

	6 months of 2006	6 months of 2005
Lease of premises	(147 965)	(138 030)
Agency fees	(142 645)	(80 448)
Fire and other security services	(134 366)	(112 773)
Cost of goods sold	(61 848)	(102 174)
Universal service fund payments	(66 659)	-
Non-commercial partnership expenses	(70 506)	(81 616)
Advertising expenses	(101 769)	(73 295)
Audit and consulting fees	(94 055)	(43 311)
Charitable contributions	(53 095)	(44 862)
Insurance	(33 694)	(35 730)
Business travel expenses and representation costs	(42 068)	(39 178)
Bank services fees	(27 299)	(26 161)
Education expenses	(30 039)	(29 061)
Buildings maintenance	(32 572)	(23 589)
Auxiliary production services	(13 614)	(18 324)
Transportation services	(13 871)	(14 116)
Post services	(18 667)	(30 214)
Civil Defense	(4 819)	(17 364)
Payments to Gossvyaznadzor	-	(19 650)
Other expenses	(18 274)	(74 015)
Total	(1 107 825)	(1 003 911)

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(In thousand rubles)

In 2005 the Company incurred an expense on payments to Universal service fund. These payments are prescribed by the Federal Law on Communications and Government Decree # 243 of April 21, 2005. Payments are calculated as 1.2% of the revenues from the telecommunication services less revenues from interconnection services in PSTN.

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

18. Interest Expense, net

	6 months of 2006	6 months of 2005
Interest income	15 237	10 634
Interest expense on loans	(249 395)	(311 058)
Interest expense accrued on finance leases	(107 727)	(128 189)
Total	(341 885)	(428 613)