

OJSC “VolgaTelecom”

Non-audited consolidated financial statement

For 6 months ended on June 30, 2005.

OJSC “VolgaTelecom”

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OJSC “VolgaTelecom”

Non-audited consolidated balance sheet As of June 30, 2005

(Thousand rubles)

	June 30, 2005	December 31, 2004 (audited)
ASSETS		
Non-current assets		
Fixed assets	26 367 221	25 603 506
Intangible assets and goodwill	2 333 481	2 167 468
Financial investments into associate companies	106 825	110 096
Long-term financial investments	8 950	11 252
Long-term receivables and other financial assets	23 110	21 591
Long-term advances made	616 742	227 798
Asset on deferred tax on income	13 130	24 814
Total, non-current assets	29 469 459	28 166 525
Current assets		
Commodity stocks	780 220	859 609
Accounts receivable	1 242 829	1 137 874
Asset on current tax on income	201 297	42 202
Other current assets	1 643 295	1 652 567
Cash and their equivalents	640 174	422 185
Total, current assets	4 507 815	4 114 437
Total, assets	33 977 274	32 280 962
SHAREHOLDERS' EQUITY AND OBLIGATIONS		
Preferred shares	963 366	963 366
Ordinary shares	2 890 324	2 890 324
Capital surplus, retained earnings and other provisions	13 701 968	13 199 851
Total, shareholders' equity connected with shareholders of parent company of the group	17 555 658	17 053 541
Minority interest	414 217	377 213
Total, shareholders' equity	17 969 875	17 430 754
Long-term liabilities		
Long-term credits and loans	4 552 392	4 256 346
Long-term finance lease liabilities	563 831	698 769
Long-term accounts payable on tax on income	241	312
Unearned revenue	332 785	332 491
Liabilities on deferred tax on income	1 271 168	1 021 603
Long-term provisions	261 957	213 574
Other long-term liabilities		
Total, long-term liabilities	6 982 374	6 523 095
Current obligations		
Accounts payable and accrued liabilities	2 428 999	2 378 880
Accounts payable to OJSC “Rostelecom”	107 676	110 965
Accounts payable on current tax on income	5 607	114 099
Accounts payable on taxes and social security	702 622	730 951
Dividends payable	609 170	28 487
Short-term credits and loans	2 683 229	2 801 307
Portion of long-term credits and loans due to repayment during the year	2 187 517	1 816 704
Short-term part of obligations under finance lease contracts	300 205	345 720
Total, current obligations	9 025 025	8 327 113
Total, obligations	16 007 399	14 850 208
Total, shareholders' equity and obligations	33 977 274	32 280 962

General Director

Omelchenko S.V.

Chief accountant

Popkov N.I.

Appended notes are integral part of this consolidated statement

OJSC “VolgaTelecom”

Non-audited consolidated income statement For 6 months of year 2005

(Thousand rubles)

	6 months of year 2005	Year 2004 (audited)
Revenues	11 333 371	20 966 543
Salary, other payoffs and benefits-related deductions	(3 763 281)	(6 735 501)
Depreciation and amortization	(1 584 621)	(2 584 675)
Materials, repair and maintenance, public utility services	(1 013 413)	(1 787 512)
Taxes, exclusive of tax on income	(300 997)	(461 666)
Expenses for carriers’ services – international companies	(486)	(25 313)
Expenses for carriers’ services – Russian companies	(1 334 605)	(2 446 937)
(Expenditure) recovery of allowance for doubtful accounts	(62 157)	(599 653)
Profit (loss) from plant assets disposals	(198 996)	(78 269)
Other operating income (expense)	(1 003 911)	(2 010 144)
Profit (loss) from core activity	2 070 904	4 236 873
Profit (loss) from participation in associate companies	7 558	72 549
Interest (income) expense, net	(428 613)	(643 958)
Financial investments profit (loss)	74 501	88 144
Foreign exchange gain (loss), net	18 401	(14 291)
Other income (expense), net	-	-
Profit (loss) before tax	1 742 751	3 739 317
Tax on income		
(Expense) consideration for tax on income – current tax	(397 585)	(1 122 998)
(Expense) consideration for tax on income – deferred tax	(261 252)	(44 259)
Profit (loss) for the reporting period	1 083 914	2 572 060
Profit (loss), related to the shareholders of parent company	1 046 669	2 478 997
Profit (loss), related to minority shareholders of subsidiary companies	37 245	93 063
Profit (loss) for the reporting period	1 083 914	2 572 060

General Director

Omelchenko S.V.

Chief accountant

Popkov N.I.

Appended notes are integral part of this consolidated statement

OJSC “VolgaTelecom”

Notes to non-audited consolidated financial statement For 6 months of year 2005 (*thousand rubles*)

1. General information

Authorization of accounts

Non-audited consolidated financial statement of OJSC “VolgaTelecom” (the “Company”) and its subsidiary companies (jointly – the “Group”) is drawn up for 6 months of year 2005.

Basis of non-audited consolidated financial statement preparation

IFRS OJSC “VolgaTelecom” statement for 6 months of year 2005 is presented to the extent of accounting balance sheet, income statement and also notes to the financial statement. This statement does not contain all required disclosures in accordance with IFRS; 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 2005.

OJSC “VolgaTelecom” presents IFRS 6 months’ statement for the first time; earlier such statement was not presented. This statement is non-audited consolidated financial statement of OJSC “VolgaTelecom”. The procedures of audit, review or other similar procedures will not be carried out in the case of 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.

OJSC “VolgaTelecom” and its subsidiary and associate companies maintain accounting records and prepare its statutory accounting reports in Russian Rubles and in accordance with the Regulations on Accounting and Reporting in the Russian Federation. This non-audited consolidated financial statement was prepared on the basis of non-audited financial statement of OJSC “VolgaTelecom” and its subsidiary and associate companies drawn up in the format meeting IFRS standards taking into account the assumptions described below.

When preparing this non-audited consolidated financial statement OJSC “VolgaTelecom” carried out smaller volume of procedures than the one that could have been carried out when preparing annual consolidated financial statement. In this connection OJSC “VolgaTelecom” made assumptions, including of the cost of obligations for retirement benefit plan, unearned revenue, provisions for depreciation of fixed assets, and commodity stocks. Actual values of financial statement for the year ended on December 31, 2005 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.

This non-audited consolidated financial statement does not contain the information about comparable values of financial statement for 6 months of year 2004. For the purposes of comparison OJSC “VolgaTelecom” presents financial values of audited statement for the year ended on December 31, 2004 and as of December 31, 2004.

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 that 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 year 2005 (*thousand rubles*)

2. 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 on January 1, 2003 is used as actual value (see Note 2) 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 book 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 book value of property, plant and equipment may be subject to adjustments.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of each group of asset as follows:

Buildings and constructions	50 years
Analog switches	20 years
Digital switches	15 years
Other telecom equipment	10 years
Transport	5 years
Computers, office and other appliances	3 years
Real estates	Not depreciated

For the purpose of disclosure of values of consolidated financial statement for 6 months of year 2005, Property, Plan and Equipment are aggregated into the following groups:

- Buildings and constructions;
- Switches and transmission devices;
- Work in progress and equipment for installation;
- Other property, plant and equipment in which computers, vehicles and other items are included.

	Buildings and constructions	Switches and transmission devices	Work in progress and equipment for installation	Vehicles and other property, plant and equipment	Total
Depreciated cost as of December 31, 2004	11 258 527	10 068 472	1 728 914	2 547 593	25 603 506
Depreciated cost as of June 30, 2005	9 894 471	11 355 253	2 428 487	2 689 010	26 367 221

OJSC “VolgaTelecom”

Notes to non-audited consolidated financial statement For 6 months of year 2005 (*thousand rubles*)

3. Intangible assets and goodwill

Goodwill is excess of the cost of acquisition over the Company’s share in the fair value of net identifiable assets and liabilities of the subsidiary or associate company as of the date of acquisition. Goodwill on acquisition of subsidiaries is recorded in intangible assets. Goodwill is not amortized, but at the same time it is analyzed annually or more often for depreciation if some events or change of circumstances testify to potential reduction of its book value.

Obtained licenses and software are amortized in equal shares over useful life of these assets equal to the license validity term or software user rights. The period of useful life of other intangible assets is equal to 10 years.

In case of revealing the signs of reduction of intangible assets cost, the book value of each asset is made, and if the reduction of cost is detected, the book value is immediately reduced to recoverable amount.

	Goodwill	Licenses	Software	Other	Total
Depreciated cost as of December 31, 2004	325 097	149 953	1 590 309	102 109	2 167 468
Depreciated cost as of June 30, 2005	355 196	137 497	1 722 980	117 808	2 333 481

OJSC “VolgaTelecom”

Notes to non-audited consolidated financial statement For 6 months of year 2005 (*thousand rubles*)

4. Subsidiaries

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

Name	Core activity	Share of participation, %		Voting shares, %	
		As of June 30, 2005	As of December 31, 2004	As of June 30, 2005	As of December 31, 2004
CJSC “Nizhegorodskaya cellular communication”	Cellular services	100	100	100	100
CJSC “Digital telecommunications”	Local telephone network services	100	100	100	100
CJSC “TeleSvyazInform”	Communication services	100	100	100	100
LLC Russian-American JV “Izhcom”	Data transfer services	100	51	-	-
CJSC “RTCOM”	Communication services	100	-	100	-
LLC “Vyatka-Page”	Paging services	91	91	-	-
CJSC “Transsvyaz”	Local communication services	80	80	80	80
OJSC “OMRIX”	Communication services	74	74	-	-
CJSC “Pulse Radio Yoshkar-Ola”	Communication services	-	61	-	61
CJSC “Ulyanovsk-GSM”	Cellular services	60	60	60	60
CJSC “Cellular communication of Mordoviya”	Cellular services	-	60	-	60
CJSC “Orenburg-GSM”	Cellular, radiotelephone communication services	51	51	51	51
LLC “Radio-resonance”	Radio services	-	51	-	-
OJSC “Tatincom”	Cellular services	50+1 share	50+1 share	50+1 share	50+1 share
CJSC “Public Telephone Saratov”	Communication services	50+1 share	50+1 share	50+1 share	50+1 share
CJSC “Nizhegorodskiyi radiotelephone”	Fixed line and wireless radio communication services	50	50	50	50
CJSC “Chery-Page”	Paging services	50	50	50	50

In March 2005 the Company acquired 100% of shares of CJSC “RTCOM” for consideration of 10 130 thousand rubles.

During 2005 the Company sold equity stake in charter capital of CJSC «Pulse Radio Yoshkar-Ola», CJSC “Cellular communication of Mordoviya” and LLC “Radio-Resonance”.

OJSC “VolgaTelecom”

Notes to non-audited consolidated financial statement For 6 months of year 2005 (*thousand rubles*)

5. Financial investments into associates

As of June 30, 2005 and December 31, 2004 the Company’s financial investments into associates comprised the following:

Name	Activity	As of June 30, 2005		As of December 31, 2004	
		Voting shares, %	Carrying value	Voting shares, %	Carrying value
CJSC “Samara Telecom”	Communication services	28	86 069	28	77 695
CJSC “ JSCB “C-Bank”	Banking services	42	15 920	42	16 596
OJSC “Telesot”	Communication services	-	-	32	10 248
Other	Communication services	40-49%	4 836	40-49%	5 557
Total			106 825		110 096

In April 2005 OJSC “VolgaTelecom” sold its equity stake in charter capital of OJSC “Telesot”.

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

6. Long-term accounts receivable and loans given

As of June 30, 2005 and December 31, 2004 long-term accounts receivable and other financial assets comprised the following:

	As of June 30, 2005	As of December 31, 2004
Long-term accounts receivable	7 553	3 308
Long-term loans given to employees	15 557	18 283
Total	23 110	21 591

7. Commodity stocks

As of June 30, 2005 and December 31, 2004 the commodity stocks comprised the following:

	As of June 30, 2005	As of December 31, 2004
Cable, spare parts and materials for telecom equipment	501 920	592 913
Finished goods and goods for sale	42 335	39 226
Other inventories	235 965	227 470
Total	780 220	859 609

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Notes to non-audited consolidated financial statement For 6 months of year 2005 (*thousand rubles*)

8. Accounts receivable

As of June 30, 2005 and December 31, 2004 the accounts receivable comprised the following:

	As of June 30, 2005	As of December 31, 2004
Settlements with subscribers for communication services	2 560 507	2 449 797
Allowance for doubtful accounts	(1 317 678)	(1 311 923)
Total	1 242 829	1 137 874

The Company identified trade receivables by the following major customer groups:

	As of June 30, 2005	As of December 31, 2004
Residential customers	826 276	800 840
Corporate customers	455 848	406 215
Government customers	1 278 383	1 242 742
Total	2 560 507	2 449 797

9. Other current assets

As of June 30, 2005 and December 31, 2004 other current assets comprised the following:

	As of June 30, 2005	As of December 31, 2004
VAT recoverable	918 094	1 128 487
Prepayments and advance paid	217 182	151 638
Prepaid expenses	123 331	106 449
Short-term loans given	6 735	3 743
Other prepaid taxes	12 949	31 702
Settlement with personnel	19 675	23 286
Other current assets	345 329	207 262
Total	1 643 295	1 652 567

10. Cash and Cash Equivalents

As of June 30, 2005 and December 31, 2004 cash and cash equivalents comprised the following:

	As of June 30, 2005	As of December 31, 2004
Cash at bank and on hand	560 298	420 990
Transaction accounts to three months	79 593	182
Other cash	283	1 013
Total	640 174	422 185

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Notes to non-audited consolidated financial statement For 6 months of year 2005 (thousand rubles)

11. Share capital

As of June 30, 2005 and December 31, 2004 the total number of issued ordinary and preferred shares was 245 969 590 pieces and 81 983 404 pieces correspondingly.

Face value of all shares is 5 rubles per a share. The difference between aggregate face value of issued shares and their book value represents inflation effect for the periods prior to January 1, 2003.

Shares	Quantity of issued shares (thousand pieces)	Face value of one share (rubles)	Face value	Book 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

12. Loans and borrowings

As of June 30, 2005 and December 31, 2004 short-term loans and borrowings comprised the following:

	Average interest rate	Maturity date	As of June 30, 2005	As of December 31, 2004
<i>Short-term loans and borrowings</i>				
Bank loans:				
Bank loans (rubles)	10-14%	2006	1 548 155	2 522 522
Bank loans (US\$)	5%	2005	12 084	25 734
Bank loans (Euro)	9%	2006	174 465	168 743
Total bank loans			1 734 704	2 716 999
Bonds (rubles)	13%	2006	35 616	57 328
Vendor financing:				
Vendor financing (rubles)	6-13%	2005	-	1 704
Vendor financing (US\$)	6,5-8%	2005	6	66
Vendor financing (Euro)	6,5-7,35%	2005	277	21 455
Vendor financing (Japanese yens)	5,91%	2005	-	3 755
Total vendor financing			283	26 980
Promissory notes (rubles)	10,5-11%	2005	912 626	-
Total short-term loans and borrowings			2 683 229	2 801 307

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Notes to non-audited consolidated financial statement For 6 months of year 2005 (*thousand rubles*)

As of June 30, 2005 and December 31, 2004 long-term loans and borrowings comprised the following:

	<u>Average interest rate</u>	<u>Maturity date</u>	<u>As of June 30, 2005</u>	<u>As of December 31, 2004</u>
<i>Long-term borrowings</i>				
Bank loans:				
Bank loans (rubles)	7-14%	2005-2009	4 727 061	3 578 169
Bank loans (Euro)	6,5-9%	2005-2007	47 181	178 586
Total bank loans			4 774 242	3 756 755
Bonds (rubles)	13,67%	2006	1 000 000	1 000 000
Vendor financing:				
Vendor financing (rubles)	6-13%	2005-2007	137 346	260 206
Vendor financing (US\$)	6,5-8%	2005-2007	66 189	105 707
Vendor financing (Euro)	6,5-7,35%	2005-2006	249 950	251 152
Vendor financing (Japanese yens)	5,91%	2005-2006	1 218	-
Total vendor financing			454 703	617 065
Promissory notes (rubles)	5,6%	2006	510 964	699 230
Less : Current portion of long-term loans and borrowings			(2 187 517)	(1 816 704)
Total long-term loans and borrowings			4 552 392	4 256 346

13. Accounts payable and accrued liabilities

As of June 30, 2005 and December 31, 2004 the Company’s accounts payable and other current liabilities comprised the following:

	<u>As of June 30, 2005</u>	<u>As of December 31, 2004</u>
Trade accounts payable for capital construction	1 240 626	1 266 486
Advances received from subscribers	361 042	501 773
Accounts payable for core activity	466 130	145 382
Accrued liabilities for salaries and compensatory payments	261 183	366 046
Other accounts payable	100 018	99 193
Total	2 428 999	2 378 880

Other accounts payable comprises arrears to agents, unearned revenue and miscellaneous.

OJSC “VolgaTelecom”

Notes to non-audited consolidated financial statement For 6 months of year 2005 (*thousand rubles*)

14. Taxes and Payroll Related Obligations

As of June 30, 2005 and December 31, 2004 the Company had the following taxes payable:

	As of June 30, 2005	As of December 31, 2004
Value-added tax	430 846	565 540
Property tax	115 857	102 282
Sales tax	-	81
Unified social tax	95 593	45 789
Other taxes	60 326	17 259
Total	702 622	730 951

15. Revenue

Revenue sources for 6 months of year 2005 and for year 2004:

Revenue sources categories	6 months of year 2005	2004
Long-distance telephone services- domestic	3 063 096	6 189 303
Long-distance telephone services - international	380 761	821 065
Local telephone services	3 354 284	5 493 216
Installation and connection fees	663 012	1 487 088
Documentary services	28 422	60 778
Mobile telecommunication services	1 350 951	2 723 029
Radio and TV broadcasting	251 806	508 474
Data transfer and telematic services	105 311	186 985
New services	552 588	759 419
Rent of telephone channels	193 251	280 632
Services to Russian carriers	664 878	1 128 805
Other telecommunications services	350 673	670 883
Other revenues	374 338	656 866
Total	11 333 371	20 966 543

OJSC “VolgaTelecom”

Notes to non-audited consolidated financial statement For 6 months of year 2005 (thousand rubles)

16. Other operating expenses

Other operating expenses for 6 months of year 2005 and for year 2004:

	6 months of year 2005	2004
Payments to Gossvyaznadzor	(19 650)	(104 313)
Expenses for fire-fighting and security services	(112 773)	(192 079)
Travel and representation expenses	(39 178)	(54 737)
Transport services	(14 116)	(29 550)
Mail services	(30 214)	(11 570)
Training costs	(29 061)	(43 725)
Cost of sales	(102 174)	(194 332)
Costs for rental of premises	(138 030)	(179 934)
Audit and consulting services costs	(43 311)	(84 432)
Payments to non-commercial partnership	(81 616)	(150 100)
Advertising cost	(73 295)	(129 064)
Insurance	(35 730)	(85 048)
Membership fees, charity and transfers to trade union	(44 862)	(81 994)
Civil defense expenses	(17 364)	(26 822)
Dealers' services	(80 448)	(144 917)
Services of credit organizations	(26 161)	(47 574)
Building maintenance	(23 589)	(90 189)
Auxiliary production services	(18 324)	(30 243)
Other expenses	(74 015)	(329 521)
Total	(1 003 911)	(2 010 144)

Other expenses comprise agent commission, fines and late payment interest, social expenses, expenses related to subscribers' payments recording and recovery, expenses related to telegraph services and to communication services rendered through payphones and other communication services, representation expenses and also other operating expenses.

17. Interest expense, net

Interest expenses for 6 months of year 2005 and for year 2004:

	6 months of year 2005	2004
Returns on loans (interest)	10 634	9 825
Interest expense	(311 058)	(437 708)
Interest expense accrued under finance lease contracts	(128 189)	(216 075)
Total	(428 613)	(643 958)