

Translation from the original in Russian

ОАО «Uralsvyazinform»

Unaudited Consolidated Financial Statements

For the 6 months ended June 30, 2007

Translation from the original in Russian
OAO «Uralsvyazinform»
Unaudited Consolidated Financial Statement

For the 6 months ended June 30, 2007

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Translation from the original in Russian
OAO «Uralsvyazinform»
Unaudited Consolidated Balance Sheets
As of June 30, 2007 and December 31, 2006
(in thousand rubles)

	Notes	June 30, 2007	December 31, 2006 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	2	47,984,208	45,835,539
Intangible assets and goodwill	3	2,756,846	2,398,764
Investment in associates	6	37,848	418,808
Long-term investments	7	39,072	38,808
Long-term accounts receivable and other financial assets	8	230,289	276,860
Long-term advances given		425,050	253,859
Total non-current assets		51,473,313	49,222,638
Current assets			
Inventories	9	526,610	496,664
Accounts receivable	10	2,716,227	2,266,827
Prepaid income tax		75,571	238,788
Other current assets	11	1,593,241	1,379,833
Cash and cash equivalents	12	249,204	645,574
Total current assets		5,160,853	5,027,686
Assets of disposal group classified as held for sale	5	–	257,331
TOTAL ASSETS		56,634,166	54,507,655
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Charter capital	13	8,749,303	8,749,303
Unrealized gain on available-for-sale investments		4,511	4,171
Retained earnings		12,054,942	11,409,502
Total equity attributable to equity holders of the parent		20,808,756	20,162,976
Minority interest		–	–
Total equity		20,808,756	20,162,976
Non-current liabilities			
Long-term borrowings	14	11,801,413	17,074,736
Long-term finance lease obligations		2,682,624	1,753,358
Pension liabilities		1,851,136	1,549,837
Deferred revenues		86,269	80,380
Deferred income tax liabilities		2,840,550	2,336,229
Total non-current liabilities		19,261,992	22,794,540
Current liabilities			
Accounts payable, accrued expenses and advances given	15	3,857,673	3,904,041
Payables to Rostelecom		376,684	48,494
Income tax payable		44,907	–
Other taxes payable	16	413,793	431,174
Dividends payable		764,521	30,105
Short-term borrowings	14	664,026	1,265,201
Current portion of long-term borrowings	14	9,041,076	4,729,982
Current portion of long-term finance lease obligations		1,400,738	1,012,698
Total current obligations		16,563,418	11,421,695
Liabilities of disposal group classified as held for sale	5	–	128,444
Total liabilities		35,825,410	34,344,679
TOTAL EQUITY AND LIABILITIES		56,634,166	54,507,655

General Director _____ Ufimkin A.Y. Chief Accountant _____ Balueva S.I.

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

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ОАО «Uralsvyazinform»
Unaudited Consolidated Statement of Operations
for the first six months of 2007 and 2006
(in thousand rubles, excluding earnings (losses) per share)

	Notes	1H 2007	1H 2006 corrected (Note 1)
Revenues	17	19,045,916	15,710,423
Wages, salaries, other benefits and payroll taxes		(4,617,852)	(4,893,319)
Depreciation and amortization	2,3	(2,841,613)	(2,715,215)
Materials, repairs and maintenance, utilities		(1,504,511)	(1,236,743)
Taxes other than income tax		(448,777)	(409,779)
Interconnection charges – International operators		(94,383)	(33,881)
Interconnection charges – Russian operators		(2,268,090)	(1,129,396)
Provision for impairment of receivables	10	(51,733)	(100,362)
Loss on disposal of property, plant and equipment		(86,595)	(14,636)
Agent commissions		(1,224,522)	(671,207)
Lease of premises		(305,316)	(264,001)
Advertising		(267,113)	(201,079)
Fire insurance and other security services		(249,448)	(243,211)
Property insurance		(143,545)	(162,514)
Other operating expenses	18	(1,395,079)	(1,229,117)
Operating profit		3,547,339	2,405,963
Share of result of associates, net		6,353	14,107
Interest expense, net	19	(1,154,994)	(1,094,564)
Gain (loss) on financial investments		131,583	5,724
Gain (loss) on foreign exchange, net		27,747	48,891
Profit before income tax		2,558,028	1,380,121
Income tax expense		(1,174,636)	(498,875)
Profit for the year		1,383,392	881,246
Attributable to:			
Equity holders of the parent		1,383,392	879,460
Minority interests		-	1,786
Earnings per share			
- basic and diluted, for profit of the year attributable to equity holders of the parent		0.034	0.022

General Director _____ Ufimkin A.Y. Chief Accountant _____ Balueva S.I.

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ОАО «Uralsvyazinform»

Notes to Unaudited Consolidated Financial Statements for the first six months of 2007

1. General information

Authorization of accounts

Unaudited consolidated financial statements of ОАО “Uralsvyazinform” and its subsidiaries (hereinafter referred to as “the Company”) are prepared for the first six months of 2007 ended June 30, 2007.

The Company

The parent company OJSC “Uralsvyazinform” was incorporated as an open joint-stock company registered in the Russian Federation.

The registered office of ОАО “Uralsvyazinform” is in the city of Ekaterinburg (the Russian Federation), Moskovskaya Str. 11.

The Company’s principal activity lies in provision of telephone services (including local and intrazone services, access to international and domestic long-distance calls), telegraph and data transmission services as well as rent of communication channels and wireless communication services on the territory of the Ural Federal District, Russia.

As of June 30, 2007 the Government of the Russian Federation controlled indirectly 51% of voting share capital, by virtue of its 75% less one share direct holding in ОАО “Svyazinvest”, the parent company of Uralsvyazinform.

Principal subsidiaries are disclosed in Note 4 of the consolidated financial statements. All the subsidiaries are incorporated under the laws of the Russian Federation.

Presentation of financial statements

The consolidated financial statements of the Company are prepared on the basis of financial statements of ОАО “Uralsvyazinform” and its subsidiaries and associates prepared under unified accounting policy.

The measurement and presentation currency of the Company is the Russian Ruble, which is the national currency of the Russian Federation.

The consolidated financial statements of the Company are presented in thousands of Russian Rubles.

Principles of the Preparation of Unaudited Consolidated Financial Statements

The financial statements for the six months of 2007 are prepared in accordance with International Financial Reporting Standards and are presented in the extent of Unaudited Consolidated Balance Sheet, Unaudited Consolidated Statement of Operations, and the Notes to the Unaudited Consolidated Financial Statements for the six months of 2007. These reports do not have all the disclosures required by IFRS, but their volume is sufficient to get an idea of the financial situation and the results of Company’s activity over the 6 months of 2007.

The present financial statements represent unaudited consolidated financial statements of ОАО “Uralsvyazinform” and its subsidiaries. No audit, overview or any other procedures will be done with respect to them. At the same time, taking into account Company’s experience in the financial reporting in accordance to IFRS, the Company considers the respective financial reporting reliable.

The present financial statements are drawn on the basis of accounting records and accounting reports maintained in accordance with the Regulations on Accounting and Reporting in the Russian Federation by additional adjustments and regrouping of accounting data, necessary for presenting financial statement, operational results and cash flows in accordance with IFRS standards.

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When preparing these unaudited consolidated financial statements, the Company performed a smaller volume of procedures as compared to this when preparing annual consolidated financial statements. In connection with that, the Company accepted assumptions including the ones in respect of the fair value of pension liabilities, deferred revenue, provisions for impairment of property, plant and equipment, inventories, accounts receivables. Actual values of the financial statements for the year ended December 31, 2007 can differ from values in the present financial statements due to new and updated information about admissions accepted by the Company.

The noted to the unaudited consolidated financial statements do not contain all disclosures that are necessary to comply with International Financial Reporting Standards. The notes to annual consolidated financial statements of the Company may present more detailed information compared to this contained in the present unaudited consolidated financial statements.

Mistakes of the previous periods

The Company has transitioned to IFRS as of January 1, 2003, using regulations of IFRS 1 “First-time Adoption of International Financial Reporting Standards”. 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 estimated that residual value of the property, plant and equipment of the Company was broadly comparable to the fair value. At the same time, the Company contracted an independent appraiser to define the fair value of the property, plant and equipment. In 2006 the independent appraiser finalized valuation.

The Company applied the following adjustments in its financial reporting for the 6 months of 2006 to map property, plant and equipment according to its fair value as well as adjustments on deferred income tax due to re-evaluation of the property, plant and equipment:

Consolidated Statement of Operations for the 6 months of 2005	Prior to adjustments	Adjustment effect	Adjustment considered	Description
Depreciation and amortization	(2,389,596)	(325,619)	(2,715,215)	Adjustments of depreciation and amortization due to reflecting of property, plant and equipment according to the fair value
Wages, salaries, other benefits and payroll taxes	(4,530,865)	(362,454)	(4,893,319)	Adjustments of pension expenses
Income tax	(523,148)	24,273	(498,875)	Adjustments of deferred income tax due to reflection of property, plant and equipment according to the fair value
Profit for the reporting period	1,545,046	(663,800)	881,246	Adjustments of the profit for the reporting period due to alterations in depreciation and amortization and income tax

2. Property, plant and equipment

	Buildings and Constructions	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles and other equipment included	Total
Original cost					
As of December 31, 2004	19,406,173	17,623,854	1,648,851	5,865,170	44,544,048
Receipts	–	–	10,686,314	–	10,686,314
Receipts related to purchase of subsidiaries	45,177	54,550	900	3,229	103,856
Disposal	(146,835)	(196,612)	(42,698)	(165,552)	(551,697)
Disposal related to sale of subsidiaries	(1,944)	–	–	–	(1,944)
Placed into operation	2,730,206	6,237,123	(11,383,009)	2,415,680	-

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As of December 31, 2005	22,032,778	23,718,915	910,356	8,118,528	54,780,577
Receipts	–	–	8,288,009	–	8,288,009
Disposal	(156,468)	(271,394)	(109,469)	(132,359)	(669,690)
Disposal related to sale of subsidiaries	(34,297)	–	(8,427)	(35,568)	(78,292)
Assets classified as held for sale	(87,418)	(130,820)	(122)	(7,876)	(226,236)
Placed into operation	1,360,739	4,643,383	(8,482,345)	2,478,223	–
As of December 31, 2006	23,115,334	27,960,084	598,002	10,420,948	62,094,368
Receipts	–	–	5,234,757	–	5,234,757
Disposal	(120,427)	(382,676)	(18,436)	(25,714)	(547,253)
Placed into operation	779,966	2,021,519	(3,167,299)	365,814	–
As of June 30, 2007	23,774,873	29,598,927	2,647,024	10,761,048	66,781,872
Total depreciation and devaluation					
As of December 31, 2004	(2,471,442)	(3,135,103)	–	(1,688,469)	(7,295,014)
Calculated during the year	(1,106,148)	(2,050,995)	–	(1,107,674)	(4,264,816)
Depreciation on disposed objects	54,807	94,282	–	120,777	269,866
Accrued depreciation on property, plant and equipment of the sold subsidiaries	756	–	–	–	756
As of December 31, 2005	(3,522,027)	(5,091,86)	–	(2,675,365)	(11,289,208)
Calculated during the year	(1,202,406)	(2,511,578)	–	(1,688,298)	(5,402,282)
Depreciation on disposed objects	74,184	174,641	–	104,517	353,342
Accrued depreciation on property, plant and equipment of the sold subsidiaries	2,814	–	–	19,861	22,675
Depreciation on the assets classified as held for sale	11,896	39,089	–	5,659	56,644
As of December 31, 2006	(4,635,539)	(7,389,664)	–	(4,233,626)	(16,258,829)
Calculated during the year	(593,011)	(1,263,157)	–	(876,389)	(2,732,557)
Depreciation on disposed objects	34,168	96,105	–	63,449	193,722
As of June 30, 2007	(5,194,382)	(8,556,716)	–	(5,046,566)	(18,797,664)
Residual value on December 31, 2004	16,934,731	14,488,751	1,648,851	4,176,701	37,249,034
Residual value on December 31, 2005	18,510,751	18,627,099	910,356	5,443,163	43,491,369
Residual value on December 31, 2006	18,479,795	20,570,420	598,002	6,187,322	45,835,539
Residual value on June 30, 2007	18,580,491	21,042,211	2,647,024	5,714,482	47,984,208

3. Intangible assets

	Goodwill	Licenses	Software	Other	Total
Original cost					
As of December 31, 2005	14,453	197,883	1,741,150	80,652	2,034,138
Receipts	–	–	908,950	–	908,950
Assets classified as held for sale	(14,453)	(65,785)	(288)	–	(80,526)
As of December 31, 2006	–	132,098	2,649,812	80,652	2,862,562
Receipts	–	–	467,149	–	467,149
Disposal	–	–	(6,342)	–	(6,342)
As of June 30, 2007	–	132,098	3,110,619	80,652	3,323,369
Total depreciation and amortization					
As of December 31, 2005	–	(75,597)	(192,434)	(20,790)	(288,821)
Calculated during the year	–	(10,506)	(160,871)	(8,272)	(179,649)
Depreciation and amortization on assets classified as held for sale	–	4,434	237	–	4,671
As of December 31, 2006	–	(81,669)	(353,068)	(29,062)	(463,799)
Calculated during the year	–	(4,736)	(100,914)	(3,406)	(109,056)

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Depreciation and amortization on disposed objects			6,332	6,332
As of June 30, 2007		(86,405)	(447,650)	(32,468)
Residual value as of December 31, 2005	14,453	122,286	1,548,716	59,862
Residual value as of December 31, 2006	–	50,429	2,296,744	51,590
Residual value as of June 30, 2007	–	45,693	2,662,969	48,184

Oracle E-Business Suite (OEBS) Software

As of June 30, 2007 this software includes OEBS software, original cost of which is 1,169,602 (in 2006 – 1,075,233), including capitalized interest in the amount of 161,243 (in 2006 – 161,243). According to the delivery contract, besides other applications, the Company acquired non-exclusive licenses on software usage of Oracle E-Business Suite 2003 Professional by 83,506 users.

The Company proceeded to commercial operation of OEBS in terms of non-current assets accounting (Release № 1) in the framework of first-time application. During 2006 the implementation of Release №1 is carried out in all the subsidiaries of the Company. The Company plans to complete the full implementation of the system until 2009.

The company proceeded to depreciate the object value after launch of the software proportionally with the number of used licenses during the license lifetime which totals 10 years. Depreciation of Oracle E-Business Suite as of June 30, 2007 amounted to 49,189 (in 2006 – 87,858).

Amdocs Billing Suite Software

As of June 30, 2007 this software also includes a software product Amdocs Billing Suite, original cost of which totaled 965,870 (in 2006 – 883,058), including capitalized discount on noted in the amount of 30,693 (in 2006 – 30,693). This software product was purchased with a view to launching of unified automated settlement system. The launch project of the unified automated settlement system based on Amdocs Billing Suite is calculated at 4-5 years.

Delivery of Amdocs Billing Suite software was done on December 2004 by OOO «IBM Eastern Europe/Asia». For provision of settlements the Company consigned 18 promissory notes in the amount of 677,581. As of June 1, 2006 the Company paid for the issued notes in full.

The Company will proceed to depreciate this asset after putting the software into operation. Prior to this moment, the company annually makes assessment of the asset with a view to devaluation.

Calculated depreciation of intangible assets for the first six months of 2007 in the amount of 109,057 was acknowledged at “Depreciation and amortization” item of the consolidated statement of operation (in 2006 – 179,649), including the sum of capitalized interest depreciation in the amount of 8,062.

Disposal of goodwill

December 27, 2006 the company signed an agreement with OAO «ComLine» on sale of 100% stake in ZAO «TK Ural». In June, 2007 the deal was completed. The goodwill, acquired as a result of purchase of ZAO “Telephone company Ural” was written off as disposed (Note 5).

4. Subsidiaries

The consolidated financial statement includes property, liabilities and activities of the Company and its subsidiaries disclosed below:

Company	Main activity	Ownership interest, %		Voting shares, %	
		June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006
OOO «Ural Inform TV»	TV and radio broadcasting	100	100	100	100
ZAO «Firma Permtelecom»	Cable TV	100	100	100	100

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ZAO «FK-Svyaz»	Telecommunication services	75	75	75	75
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All the abovementioned companies are Russian legal entities registered in accordance with the Russian legislation, and have the same financial year as OAO “Uralsvyazinform”.

5. Assets and liabilities of disposal group, classified as held for sale

On December 27, 2006 the Company signed an agreement with OAO “ComLine” on sale of 100% stake in ZAO “TK Ural” for 137,500. The sale price was defined by an independent appraiser. The decision to sell ZAO “TK Ural” was affirmed by the Board of Directors on December 20, 2006. The Company completed the deal in June 2007. ZAO “TK Ural” provides telephone services in the Urals and is not a separate, key operational or geographic business segment.

In accordance to IFRS 5 “Non-current assets held for sale, and stopped activity” in December 2006 the Company proceeded to consider ZAO “TK Ural” as “Disposal group classified as held for sale”, because its balance cost will be reimbursed by the sale and not by continuation of the operation. On the date of sale decision, ZAO “TK Ural” was a group of assets with the total amount of 257,331, held for sale, and obligations in the amount of 128,444 directly connected to these assets which will be transmitted after sale. This group included goodwill in the amount of 14,453 acquired as a result of the company merger. As of December 31, 2006 the Company measured the disposal group classified as held for sale on minimal balance cost and fair value after deduction of cost of goods sold. The Company accomplished depreciation of assets held for sale since December 27, 2006.

The deal was accomplished in June 2007.

See below the information on sale price, fair value of the identified assets, liabilities and contingent liabilities of ZAO “TK Ural” on disposal date:

Sale price	137,500
Deal expenses	96
Total	137,404
Property, plant and equipment, net	177,736
Intangible assets, net	75,855
Other non-current assets	999
Accounts receivable	11,178
Cash and cash equivalents	764
Other current assets	6,600
Accounts payable	(77,294)
Other long-term liabilities	(58,225)
Total net assets	137,613
Company’s stake in disposed subsidiaries	100%
Company’s stake in net assets of disposed subsidiaries	137,613
Minority interest in net assets of disposed subsidiaries	–
Cash flow (outflow) from disposal	136,640

6. Financial investments in associates

As of June 30, 2007 financial investments in associates included:

Company	Main activity	June 30, 2007		December 31, 2006	
		Voting shares	Balance cost	Voting shares	Balance cost
OAO «Tatinkom-T»	Mobile services	–		33.43%	384,688

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ZAO «Ural Telephone company»	Telecommunication services	23.00%	26,812	23.00%	22,717
ZAO «TeleRoss-Ekaterinburg»	Telecommunication services	50.00%	3,597	50.00%	3,962
ZAO «TeleRoss-Tyumen»	Telecommunication services	50.00%	4,459	50.00%	4,462
ZAO «Kurganskyi Sotovy Telephone»	Mobile services	50.00%	–	50.00%	–
Other			2,980		4,430
Total			37,848		418,808

All the above-mentioned companies are Russian legal entities registered in accordance with the legislation of the Russian Federation, and have the same financial year as OAO “Uralsvyazinform”.

In April, 2007, in accordance with Board of Directors decision, the Company sold 33.34 % of the common share in OAO “Tatinkom-T”. Revenues resulted from the sale of stake in OAO “Tatinkom-T” totaled 128,775.

6. Financial investments in associates (continued)

The Company has financial investments in associates presented below, which net assets are negative as of June 30, 2007:

Company	Main activity	Voting shares	Net Assets	
			June 30, 2007	December 31, 2006
ZAO «Kurganskyi Sotobyi Telephone»	Mobile services	50	(18,941)	(16,846)

Balanced cost of financial investments in associates, presented in consolidated financial reporting, corresponds to the Company’s stake in net assets of associates, except financial investments in ZAO “Kurganskyi Sotovy Telephone”. Balance cost of financial investments in the presented company was decreased to zero due to the fact that its losses exceeded the amount of relevant financial investments.

Flows of financial investment in associates for the periods ended June 30, 2007 and December 31, 2006 are presented below:

	June 30, 2007	December 31, 2006
Financial investments in associates as of January 1	418,808	417,056
Share in financial results except income tax 1,043 (in 2006 – 5,331) and received dividends – 0 (in 2006 – 37)	6,353	3,201
Sale of share in associate OAO “Tatinkom-T”	(387,313)	–
Devaluation of financial investments acknowledged in the current year	–	(1,449)
Financial investments in associates as of June 30	37,848	418,808

As of June 30, 2007 the Company did not acknowledged the share in net loss of ZAO “Kurganskyi Sotovy Telephone” in the amount of 1,048. As of June 30, 2007 the Company’s share in accumulated loss of ZAO “Kurganskyi Sotovy Telephone” totaled 9,471 (in 2006 r. – 8,423). The Company does not represent in its financial statements financial investments in associates share of accumulated loss of which exceeds the amount of financial investments in this company.

Financial information on associates is presented below:

Company	Voting shares	Assets	Liabilities	Revenues	Net profit/ (loss)
June 30, 2007					
OAO «Tatinkom-T»	–	–	–	–	–
ZAO «Ural Telephone Company»	23%	279,279	(187,228)	244,672	19,727

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ZAO «TeleRoss-Tyumen»	50%	9,098	(179)	708	(6)
ZAO «TeleRoss-Ekaterinburg»	50%	7,392	(198)	994	(730)
ZAO «Kurganskyi Sotovy Telephone»	50%	3,172	(22,113)		(2,095)
December 31, 2006					
OAO «Tatinkom-T»	33.43%	761,423	(239,756)	689,143	57,810
ZAO «Ural Telephone Company»	23%	279,719	(180,944)	376,169	(66,385)
ZAO «TeleRoss-Tyumen»	50%	9,475	(550)	2,240	(500)
ZAO «TeleRoss-Ekaterinburg»	50%	8,010	(86)	2,611	(1,215)
ZAO «Kurganskyi Sotovy Telephone»	50%	3,350	(20,196)	344	(4,559)
OAO «Tatinkom-T»	33.43%	761,423	(239,756)	689,143	57,810

7. Long-term and short-term financial investments

As of June 30, 2007 financial investments, held for sale, included:

Company	June 30, 2007		December 31, 2006	
	Ownership interest	Balance cost	Ownership interest	Balance cost
Long-term financial investments				
OAO «Svyazintek»	11%	12,591	11%	12,591
OAO AKB «Svyazbank»	0.50%	11,231	0.50%	11,231
OAO Sberbank Zapadno-Uralskyi Bank	0.000225%	4,514	0.000225%	4,174
Other		10,736		10,812
Total financial investments, held for sale		39,072		38,808

Alteration of fair value of financial investments, held for sale in 1H 2007 totaled 340 (in 2006 – 2,692).

As of June 30, 2007 the Company sold its share in OAO «KB Mechel-Bank». Residual value of OAO “KB Mechel-Bank” as of the disposal date totaled 57, sale price 94. Revenues from disposal in the amount of 18 are included in “Profit (loss) from the sale of subsidiaries, associates and other investments”.

8. Long-term accounts receivable and advances given

As of June 30, long-term accounts receivable and other financial assets included:

	June 30, 2007	December 31, 2006
Long-term advances given to personnel	146,803	167,014
Long-term accounts receivable	83,486	104,795
Long-term VAT receivable	–	5,051
Total	230,289	276,860

As of June 30, 2007 long-term loans are represented as amortized original cost with the use of effective interest rate of 17% (in 2006 – 18%).

9. Inventories

As of June 30, 2007 inventories included:

	June 30, 2007	December 31, 2006
Cable, materials and spare parts for telecom equipment	163,917	186,385
Construction materials, fuel and tools	72,488	44,319
Ready goods and goods for sale	94,151	81,017
Other inventories	213,272	204,984

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Reserve for depreciation of inventories	(17,218)	(20,041)
Total	526,610	496,664

Expenses on provision of reserve for depreciation of inventories are represented in line «Other operating expenses».

10. Accounts receivable

As of June 30, 2007 accounts receivable totaled:

	June 30, 2007	December 31, 2006
Trade receivables – telecommunication services	3,130,970	2,788,011
Other accounts receivable	269,229	182,894
Provision for impairment of receivables	(683,972)	(704,078)
Total	2,716,227	2,266,827

The Company identified accounts receivable by the following main customer groups:

	June 30, 2007	December 31, 2006
Residents	1,401,348	1,117,620
Corporate customers	1,073,720	583,797
OAO «Rostelecom»	296,957	414,292
Russian operators	84,604	392,564
Governmental customers	210,438	120,998
Accounts receivable – privilege compensation budget funds	63,903	158,740
Total	3,130,970	2,788,011

Table represented below shows changes of provision for impairment of receivables:

	June 30, 2007	December 31, 2006
Balance at January 1	(704,078)	(1,043,595)
Provision for the year	(51,733)	29,863
Account receivable write off	71,839	309,654
Balance at December 31	(683,972)	(704,078)

11. Other current assets

As of June 30, 2007 other current assets comprised:

	June 30, 2007	December 31, 2006
Deferred expenses	923,194	767,168
VAT receivable	240,148	350,904
Prepayments and advances	318,994	168,531
Other prepaid taxes	33,117	44,643
Settlements with personnel	77,788	48,587
Total	1,593,241	1,379,833

12. Cash and Cash Equivalents

As of June 30, 2007 cash and cash equivalents included:

	June 30, 2007	December 31, 2006

Translation from the original in Russian

Cash at bank and on hand	249,037	644,945
Other cash equivalent	166	629
Total	249,204	645,574

13. Charter capital

As of June 30, 2007 and December 31, 2006 nominal value of all outstanding common and preferred shares is 3,875,854 и 940,313.

14. Borrowings

As of June 30, 2007 borrowings comprised the following:

	Weighted average interest rate	Maturity date	June 30, 2007	December 31, 2006
Short-term borrowings				
Bank loans (Rubles)			–	740,000
Bank loans (Euro)			–	–
Total bank loans				740,000
Vendor financing:				
Vendor financing (Rubles)		2007	209,666	460,212
Vendor financing (US Dollar)		2007	211,399	2,020
Vendor financing (Euro)		2007	155,907	7,373
Total vendor financing			576,972	469,605
Promissory Notes	8.5%		83,932	55,288
Interest indebtedness			3,122	308
Total short-term borrowings			664,026	1,265,201
Long-term borrowings				
Bank loans (Rubles)	9.24%	2007-2011	8,770,097	9,201,736
Bank loans (US Dollars)	7.65%	2007	18,139	36,935
Bank loans (Euro)	Euribor+0.82	2008-2015	1,509,237	1,567,709
Total bank loans			10,297,473	10,806,380
Bonds (Rubles)	9%		10,078,720	10,042,908
Vendor financing (US Dollars)		2007	157,120	160,254
Vendor financing (Euro)	2%	2007	3,449	21,487
Total vendor financing			160,569	181,741
Promissory notes (Rubles)	16%	2007	145,777	593,713
Total promissory notes			145,777	593,713
Restructured customer payments for installation and connection (Rubles)			55,891	81,439
Other borrowings (Euro)	Euribor+3.16	2010	104,060	122,843
Total long-term borrowings including current portion			20,842,489	21,804,718
Less current portion of long-term borrowings			(9,041,076)	(4,729,982)
Total long-term borrowings			11,801,413	17,074,736

As of June 30, 2007 long-term borrowings includes interest debt in the amount of 405,468 (2006 – 383,904).

Long-term debt is distributed among:

Currency type	June 30, 2007	December 31, 2006
Russian Rubles	19,347,204	21,151,285

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Euro	1,772,653	1,719,424
US Dollars	386,658	199,210
Total	21,506,515	23,069,919

15. Accounts payable and accrued liabilities

Accounts payable and other current liabilities of the Company as of June 30, 2007 included:

	June 30, 2007	December 31, 2006 (adjusted)
Trade accounts payable	1,379,619	1,441,538
Salaries and wages	756,356	917,086
Advances received from subscribers	779,090	861,623
Accounts payable to equipment suppliers and constructors	687,606	328,784
Payables to agents	80,059	122,817
Payables to Universal Fund	95,509	89,017
Accounts payable for voluntary property insurance	45,991	84,024
Other accounts payable	33,443	59,152
Total	3,857,673	3,904,041

In 2006 accounts payable on voluntary trade union payments was included into line «Other accounts payable». Due to mapping change in 1H 2007 accounts payable were reclassified into line «Trade accounts payable»:

	Prior to reclassification	Reclassification effect	Reclassification considered
Trade accounts payable	1,432,261	9,277	1,441,538
Other accounts payable	68,429	(9,277)	59,152

16. Taxes payable and pension obligations

As of June 30, 2007 the Company had the following current taxes payable:

	June 30, 2007	December 31, 2006
Property tax	200,135	196,650
Uniform social tax	94,419	96,928
Individual income tax	65,495	54,280
Value added tax	46,456	70,836
Other taxes	7,288	12,480
Total	413,793	431,174

17. Revenues

By revenue types	1H 2007	1H 2006
Mobile telecommunication services	5,882,458	4,878,625
Local telephone services	5,264,638	5,093,796
Intrazone telephone services	2,543,735	1,315,744
Traffic connection and transfer	2,476,462	2,271,230
Telegraph, data transfer and telematics	1,639,927	1,109,376
Assistance services	368,964	389,724
Mobile wireless telecommunications, wired radio, radio and TV broadcasting	248,978	261,082
Other telecom services (main activity)	35,940	14,151
Other revenues (side activity)	584,814	376,695
Total	19,045,916	15,710,423

Due to mapping change in 1H 2007 comparable balances were reclassified:

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	Prior to reclassification	Reclassification effect	Reclassification considered
Mobile telecommunication services	4,880,307	(1,682)	4,878,625
Provision of local telephone services	4,140,578	953,218	5,093,796
Services for national operators	2,810,634	(2,810,634)	-
Services for traffic connection and transfer	-	2,271,230	2,271,230
Provision of intrazone telephone calls	1,071,868	243,876	1,315,744
New services (Internet, ISDN, ADSL, IP- telephony)	890,431	(890,431)	-
Other telecom services	538,907	(524,756)	14,151
Assistance services	-	389,724	389,724
Installation and connection fees	352,193	(352,193)	-
Data transfer and telematic services	223,863	(223,863)	-
Telegraph, data transfer and telematic services	-	1,109,376	1,109,376
Radio and TV broadcasting	243,215	(243,215)	-
Mobile wireless telecommunications, wired radio, radio and TV broadcasting	-	261,082	261,082
Rent of telephone channels	158,569	(158,569)	-
Documentary services	23,163	(23,163)	-
Other revenues	376,695	-	376,695

18. Other operating expenses

	1H 2007	1H 2006
Payments to Universal fund	(186,431)	(150,567)
Membership fees, charitable contributions, contributions to labor union	(182,099)	(147,736)
Cleaning and maintenance of premises	(167,356)	(132,578)
Payments to “Radiochastotnyi tsentr”	(162,068)	(67,528)
Payments to Non-commercial Partnership	(111,000)	(52,500)
Business travel expenses	(83,874)	(71,995)
Audit and consulting services	(83,847)	(76,225)
Training expenses	(80,098)	(48,618)
Post services on tariff option	(76,205)	(49,694)
Transport services	(53,651)	(17,610)
Cost of goods sold	(13,282)	(32,584)
Post services	(8,019)	(5,670)
LKS registration	(7,020)	(7,655)
Other expenses	(180,129)	(368,157)
Total	(1,395,079)	(1,229,117)

19. Interest expense, net

	1H 2007	1H 2006
Interest income	15,533	57,764
Interest expense	(871,084)	(967,087)
Interest expense accrued on financial lease liabilities	(296,344)	(201,606)
Interest expense accrued on vendor finance liabilities	(3,099)	(16,365)
Total	(1,154,994)	(1,094,564)