

**OJSC North-West Telecom**

Unaudited  
Consolidated Financial Statements

*For the 6 months that expired on 30<sup>th</sup> June 2006*

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**OJSC North-West Telecom**  
**Unaudited Consolidated Balance Sheet as of 30<sup>th</sup> June 2006**  
(in thousands of roubles)

	Note	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed Assets	3	27,183,094	26,642,873
Intangible Assets and Goodwill	4	2,111,734	1,832,433
Financial investments in associated companies	5	97,392	94,655
Long-term financial investments	6	7,794,003	7,796,831
Long-term accounts receivable and other financial assets	7	355,366	284,610
Long-term issued advances	8	460,561	389,085
<b>Total non-current assets</b>		<b>38,002,150</b>	<b>37,040,487</b>
<b>Current assets:</b>			
Inventory holdings	9	306,277	300,092
Accounts receivable	10	1,315,932	1,181,806
Short-term financial investments	6	689,904	1,042,626
Other current assets	11	847,620	1,165,768
Cash and cash equivalents	12	490,353	152,091
<b>Total current assets</b>		<b>3,650,086</b>	<b>3,842,383</b>
<b>TOTAL ASSETS</b>		<b>41,652,236</b>	<b>40,882,870</b>
<b>EQUITY AND LIABILITIES</b>			
Authorized capital	13	2,855,504	2,855,504
Own redeemed shares	13	(71,441)	(56,681)
Book profit from financial investment available for sale		5,432,956	5,432,956
Additional capital, retained earnings and other reserves		16,100,122	15,435,911
<b>Total equity related to shareholders of the group's parent company</b>		<b>24,317,141</b>	<b>23,667,690</b>
<b>Minority interest</b>		<b>-</b>	<b>8,515</b>
<b>Total equity</b>		<b>24,317,141</b>	<b>23,676,205</b>
<b>Long-term liabilities:</b>			
Long-term credits and loans	14	6,862,962	8,177,438
Finance lease liabilities		213,688	302,121
Pension obligations		1,456,827	1,301,953
Deferred income		271,837	304,857
Deferred profit tax liability		3,147,596	3,072,518
<b>Total long-term liabilities</b>		<b>11,952,910</b>	<b>13,158,887</b>
<b>Current liabilities:</b>			
Accounts payable and charged liabilities	15	1,863,453	1,614,461
Accounts payable to Rostelecom OJSC		496,237	146,282
Debt in respect of taxes and social security	16	495,865	694,236
Dividends payable		409,445	15,936
Short-term credits and loans	14	115,668	595,678
Share of long-term credits and loans to be repaid within the year	14	1,818,839	791,969
Current portion of obligations under finance leases		182,678	189,216
<b>Total current liabilities</b>		<b>5,382,185</b>	<b>4,047,778</b>
<b>Total liabilities</b>		<b>17,335,095</b>	<b>17,206,665</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>41,652,236</b>	<b>40,882,870</b>

General Manager  \_\_\_\_\_ V.A. Akulich

Chief accountant \_\_\_\_\_ M.M. Semchenko

*The enclosed notes are the integral part of these consolidated statements* **OJSC North-West Telecom**

**Unaudited Consolidated Profit and Loss Report**  
**for 6 months of 2006**  
(in thousands of roubles)

	<b>Note</b>	<b>for 6 months of 2006</b>	<b>for 6 months of 2005</b>
<b>Income</b>	<b>17</b>	<u>9,830,033</u>	<u>9,912,906</u>
Wages, other pays and social deductions		(3,332,968)	(3,137,578)
Reduction of the value of fixed assets and construction-in-progress sites, intangible assets		-	
Wear and depreciation		(1,655,291)	(1,071,890)
Materials, repairs and maintenance, utilities		(1,027,172)	(941,276)
Taxes other than income tax		(252,210)	(216,401)
Expenses by services of communication operators		(491,560)	(1,742,816)
(Expenses) restoration of reserve for doubtful debts		(143,466)	47,272
Loss from withdrawal of fixed assets		(49,703)	(74,387)
Other operating expenses (net)	<b>18</b>	(1,061,795)	(956,254)
<b>Operating profit</b>		<u>1,815,868</u>	<u>1,819,576</u>
Profit from interest in associated companies		3,382	1,764
Interest expense, net	<b>19</b>	(360,231)	(364,394)
Profit (loss) from financial investments		(3,276)	2,328
Losses due to exchange rate differences under currency revaluation, net		21,966	15,585
<b>Profit before taxes</b>		<u>1,477,709</u>	<u>1,474,859</u>
<b>Profit tax</b>			
Profit Tax Expenses		(446,331)	(449,170)
<b>Profit for the period under report</b>		<u>1,031,378</u>	<u>1,025,689</u>
Profit related to shareholders of the group's parent company		1,031,643	1,024,712
Profit (loss) related to minority shareholders of subsidiaries		(265)	977
<b>Profit for the period under report</b>		<u>1,031,378</u>	<u>1,025,689</u>

General Manager \_\_\_\_\_ V.A. Akulich      Chief accountant \_\_\_\_\_ M.M. Semchenko

*The enclosed notes are the integral part of these consolidated statements*

**OJSC North-West Telecom**  
**Notes to the Unaudited Consolidated Financial Statements**  
**for 6 months of 2006**

**1. General**

**Authorization of Accounts**

The unaudited Consolidated Financial Statements of OJSC North-West Telecom ("Company") and its subsidiaries (jointly referred to as the "Group") have been prepared for 6 months of 2006.

**Principles of preparing the unaudited Consolidated Financial Statements**

The financial statements of OJSC North-West Telecom for 6 months of 2006 according to IFRS are presented as the balance sheet, profit and loss report and notes to the financial statements. These statements do not contain all disclosures required according to IFRS, however, their volume are sufficient to obtain an idea of the financial standing and the results of the Company's activities for 6 months of 2006.

These reports are unaudited consolidated financial statements of OJSC North-West Telecom. No procedures of audit, review or other similar procedures will be performed in respect of these statements. At the same time, taking into account the experience of OJSC North-West Telecom in the field of presenting reports according to IFRS, the Company considers that users of the financial statements can rely on these statements.

These financial statements are made up on the basis of the data of accounting and reports, which are kept and made up in compliance with the accounting regulation system established by the legislation of the Russian Federation, through an extra adjustment and regrouping of the accounting data needed for showing the financial standing, operation results and cash flows in compliance with the IFRS.

In preparing these unaudited consolidated financial statements, OJSC North-West Telecom used less procedures than could have been used in preparing annual consolidated financial statements. In this context, OJSC North-West Telecom has used some assumptions, including those concerning the fair value of assets and liabilities of acquired subsidiaries and dependent companies, the value of pension provision liabilities, deferred income, fixed assets depreciation reserves, inventory holdings and accounts receivable. The actual figures of the financial reporting for the year that expired on 31<sup>st</sup> December 2006 may differ from the figures of these financial statements, as there might have been some adjustments of the information on assumptions used by the Company and some other new information might have appeared.

The content of the notes to the unaudited consolidated financial statements of OJSC North-West Telecom do not disclose fully all the information, the disclosure of which is required for compliance with the International Financial Reporting Standards. The content of the notes to the annual consolidated financial statements of OJSC North-West Telecom may disclose information in a volume larger than disclosed in these unaudited consolidated financial statements of OJSC North-West Telecom.

The Company started using IFRS as of 1<sup>st</sup> January 2003, applying the provisions of IFRS 1, "First-time Adoption of International Financial Reporting". Management has engaged an independent appraiser to support fair value of fixed assets as of the transition date. The independent appraiser completed his work after the date accounts and reports for 6 months of 2005 were made up. In 2005, the Company valued the identifiable assets, liabilities and contingent liabilities of Lensvyaz OJSC, Svyaz of Komi Republic OJSC and Novgorod Datacom LLC at their fair cost. While preparing the reports for the 6 months of 2005 the preliminary assessments of the fair value of the identifiable assets, liabilities and contingent liabilities was used.

Due to the above information the comparative data of the column "6 months of 2005", items "Wear and depreciation", "Loss from withdrawal of fixed assets", "Other operating expenses", "Interest expenses", "Profit tax" of the Profit and Loss Report, can not be compared to the data for 6 months of 2006.

**2. Subsidiaries**

The presented consolidated financial statements include the assets, liabilities and financial results of the operation of the Company and its subsidiaries listed below:

Name	Area of activities	Interest/percentage of voting shares	
		30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
AMT CJSC	Consulting services	100%	100%
Artelecom Service LLC	Leasing out communication equipment	100%	82%
Kolatelecom OJSC	Communication services	50%	50%
Parma Inform LLC	Communication services	100%	100%
IC Svyaz CJSC	Financial services	100%	100%
Novgorod Datacom LLC	Communication services	100%	100%

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

### 3. Fixed Assets

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 the balance value of the fixed assets is:

	Land, buildings and facilities	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles and other fixed assets	Total
Depreciated cost as of 31 <sup>st</sup> December 2004	13,836,932	7,011,762	1,010,984	2,486,644	24,346,322
Depreciated cost as of 31 <sup>st</sup> December 2005	14,340,543	8,399,291	784,677	3,118,362	26,642,873
<b>Depreciated cost as of 30<sup>th</sup> June 2006</b>	<b>14,217,836</b>	<b>8,546,239</b>	<b>1,160,001</b>	<b>3,259,018</b>	<b>27,183,094</b>

The Company started using IFRS as of 1<sup>st</sup> January 2003, applying the provisions of IFRS 1, "First-time Adoption of International Financial Reporting". The Company has used the exception allowed by IFRS 1, which permits organizations to assess fixed assets as of the date of switching over to IFRS at fair value and to use such fair value as the actual value of fixed assets. According to the management's estimates, the depreciated cost of the fixed assets of the Company approximately corresponded to their fair value. However, to confirm the fair value of the said assets, the management engaged an independent appraiser. The independent appraiser completed his work in 2005. As a result, the depreciated cost of the fixed assets as of 31<sup>st</sup> December 2004 and 2005 shown in the financial statements was adjusted according to the data provided by the independent appraiser.

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 the balance value of the fixed assets received under the contracts of finance leasing is:

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Switches and transmission devices	761,047	785,400
Buildings and facilities	119,883	124,712
Transport facilities and other fixed assets	18,978	26,047
Construction in progress and equipment for installation	-	172
<b>Total, received under finance leasing, balance value</b>	<b>899,908</b>	<b>936,159</b>

#### 4. Intangible Assets

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 the balance value of intangible fixed assets is:

	Goodwill	Licenses	Software	Client base	Other	Total
Depreciated cost as of 31 <sup>st</sup> December 2005	30,377	10,676	1,780,002	8,307	3,071	1,832,433
<b>Depreciated cost as of 30<sup>th</sup> June 2006</b>	<b>30,377</b>	<b>10,798</b>	<b>2,060,418</b>	<b>6,820</b>	<b>3,321</b>	<b>2,111,734</b>

#### 5. Financial investments in associated companies

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 the Company's financial investments in associates included:

Name of company	Area of activities	30 <sup>th</sup> June 2006		31 <sup>st</sup> December 2005	
		Percentage of voting shares	Balance value	Percentage of voting shares	Balance value
WestBalt Telecom CJSC	Communication services	28%	51,320	28%	49,055
Medexpress ICJSC	Insurance services	35%	29,294	35%	29,294
Norhtern Clearing Chamber CJSC	Payment clearing systems	20%	16,778	20%	16,306
Other			57		57
Impairment in value of financial investments in associated companies			(57)		(57)
<b>Total</b>			<b>97,392</b>		<b>94,655</b>

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

## 6. Long-term and short-term financial investments

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 financial investments included:

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Long-term investments available-for-sale	7,794,003	7,796,831
<b>Total long-term finance investment</b>	<b>7,794,003</b>	<b>7,796,831</b>
Short-term investments held-to-maturity	689,904	1,042,626
<b>Total short-term investments</b>	<b>689,904</b>	<b>1,042,626</b>
<b>Total investments</b>	<b>8,483,907</b>	<b>8,839,457</b>

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 the Company's financial investments available for sale included:

Name of company	30 <sup>th</sup> June 2006		31 <sup>st</sup> December 2005	
	Interest	Fair value	Interest	Fair value
Telecominvest OJSC	15%	7,763,961	15%	7,763,961
Other long-term finance investment		59,541		67,536
Impairment in value of other finance investments		(29,499)		(34,666)
<b>Total investments available for sale</b>		<b>7,794,003</b>		<b>7,796,831</b>

Other long-term investments comprise minor investments of the Company in equity of a number of commercial entities incorporated in the Russian Federation.

## 7. Long-term accounts receivable and other financial assets

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 long-term accounts receivable and other financial assets included:

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Long-term VAT recoverable	320,956	250,996
Long-term loans issued	22,082	25,180
Long-term accounts receivable	12,328	8,434
<b>Total long-term accounts receivable and other financial assets</b>	<b>355,366</b>	<b>284,610</b>

Granted long-term loans are shown at depreciable cost using the effective interest rate of 16%-20% (17.4%-20% in 2005)



## 8. Long-term advances issued

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 advances to equipment suppliers included:

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Advances for acquisition of intangible assets	197,356	234,925
Settlements with suppliers for capital construction	117,925	120,965
Acquisition of equipment	141,477	27,087
Other issued advances	3,803	6,108
<b>Total</b>	<b>460,561</b>	<b>389,085</b>

## 9. Inventory holdings

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 inventory holdings included:

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Cable, materials, fuel and spare parts for telecommunications equipment	96,697	125,565
Finished products and goods for resale	14,519	8,444
Other stock	195,061	166,083
<b>Total</b>	<b>306,277</b>	<b>300,092</b>

As of 30<sup>th</sup> June 2006 no inventories have been pledged as security for borrowings.

## 10. Accounts receivable

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 accounts receivable included:

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Trade receivables – telecommunication services	1,860,421	1,686,056
Other accounts receivable	157,148	99,512
Allowance for doubtful accounts	(701,637)	(603,762)
<b>Total</b>	<b>1,315,932</b>	<b>1,181,806</b>

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

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Corporate customers	849,249	316,444
Residential customers	850,077	1,282,481
Government customers	161,095	87,131
<b>Total - Trade receivables – telecommunication services</b>	<b>1,860,421</b>	<b>1,686,056</b>

The Company invoices its governmental and corporate customers for telecommunication services on a monthly basis. For residential customers, the Company sends monthly payment requests and substantially relies upon these customers to remit payments in time based on the received payment requests. All customer payments are based upon tariffs denominated in roubles in effect at the time the calls are made. In limited circumstances, the Company has billed and collected penalties associated with delays in payment and has been able to obtain certain payments through the Arbitrage Courts.

The table given below presents changes of the doubtful debt allowance:

	for 6 months of 2006	2005
<b>Balance as of 1<sup>st</sup> January</b>	603,762	1,029,883
Charging (restoration) of the allowance	143,466	(362,428)
Writing off the accounts receivable	(45,591)	(63,693)
<b>Balance as of 31<sup>st</sup> December</b>	<b>701,637</b>	<b>603,762</b>

## 11. Other current assets

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 other current assets included:

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Prepayments and advance payments	99,928	81,549
Settlements with personnel	22,080	17,117
VAT recoverable	212,895	691,815
Advance payments of the profit tax	259,353	172,115
Other prepaid taxes	14,447	15,757
Deferred expenses	156,820	81,560
Other payments and current assets	82,097	105,855
<b>Total</b>	<b>847,620</b>	<b>1,165,768</b>

## 12. Cash and cash equivalents

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 cash and cash equivalents included:

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Cash at bank and on hand	490,267	152,005
Short-term deposits with original maturities of three months or less	86	86
<b>Total</b>	<b>490,353</b>	<b>152,091</b>

As of 30<sup>th</sup> June 2006 the Company had no restrictions for the use of cash.

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005, amounts expressed in the following currencies were included in the item "Cash at Bank and on Hand":

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Russian roubles	123,708	152,005
US dollars	15,063	
Euros	351,496	
<b>Total - Cash at bank and on hand</b>	<b>490,267</b>	<b>152,005</b>

### 13. Capital Stock

The following number of Company's shares is in circulation:

	Number of shares in circulation		Number of own redeemed shares		Authorized capital	Own redeemed shares
	(in thousands of shares)		(in thousands of shares)			
	Preferred shares	Common shares	Preferred shares	Common shares		
<b>As of 31<sup>st</sup> December 2004</b>	<b>250,370</b>	<b>881,045</b>	<b>(3,728)</b>	<b>(3,355)</b>	<b>2,855,504</b>	<b>(60,822)</b>
Purchase of own shares			(822)	(643)		(12,114)
Sale of redeemed own shares			973	972		16,255
<b>As of 31<sup>st</sup> December 2005</b>	<b>250,370</b>	<b>881,045</b>	<b>(3,577)</b>	<b>(3,026)</b>	<b>2,855,504</b>	<b>(56,681)</b>
Purchase of own shares			(467)	(757)		(31,903)
Sale of redeemed own shares			822	779		17,143
<b>As of 30<sup>th</sup> June 2006</b>	<b>250,370</b>	<b>881,045</b>	<b>(3,222)</b>	<b>(3,004)</b>	<b>2,855,504</b>	<b>(71,441)</b>

All authorized and issued shares as presented in the table below, have been fully paid. All issued shares have a par value of 1 rouble per share. 77.87 % of the share capital issued as of 30<sup>th</sup> June 2006 was attributable to common shares and 22.13 % attributable to preferred shares, class A. The difference between the total face value and total balance value represents the effects of inflation of prior years. Authorized, but not floated common and preferred shares totaled, respectively, 6,098 (in 2005 – 6,098 shares) and 32,486 (in 2005 – 32,486 shares).

The holders of common shares are allowed one vote per share. Class A preferred shares entitle their holder to participation in general meetings of the shareholders without the right of vote, except for taking decisions on the issues of reorganization and liquidation of the Company and introducing amendments and additions to the Articles of Association of the Company, that could restrict the rights of the holders of preferred shares. Preferred shares do not entitle their holder to demand redemption of shares or their conversion, however, they do entitle the holder to getting a noncumulative dividend to the amount of 10% of the net profit according to the data of the accounts and reports made up in compliance with the Russian accounting rules.

The annual amount of dividends on Class A preferred shares may not be less than dividends on ordinary (common) shares. As such, the preferred shareholders share in earnings is in line with common shareholders and thus the preferred shares are considered participating shares for the purpose of the calculation of earnings per share. When the Company does not pay dividends or when the Company has not received profit after a year's operation, holders of preferred shares get the right of vote in respect of all issues included in the terms of reference of the general meeting of the shareholders

As of 30<sup>th</sup> June 2006 all issued common and preferred shares have par value 881,045 and 250,370, respectively, and it has not changed as compared with 2005.

Company's capital stock structure as of 30<sup>th</sup> June 2006 is presented below:

	Common shares		Preferred shares		Total
	(in thousands of shares)	%	(in thousands of shares)	%	(in thousands of shares)
Svyazinvest OJSC	447,231	50.8%			447,231
Other legal entities	387,548	44.0%	160,822	64.2%	548,370

Individuals	43,262	4.9%	86,544	34.6%	129,806
Own shares purchased from shareholders	3,004	0.3%	3,004	1.2%	
<b>Total</b>	<b>881,045</b>	<b>100%</b>	<b>250,370</b>	<b>100%</b>	<b>1,131,415</b>

#### 14. Debts under credits and loans

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 debt in respect of credits and loans included:

	Interest rate	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
<b>Short-term debts</b>			
Bank loans (roubles)	6-15.5%	46,333	530,438
<b>Interest payable under bank loans, bonds, notes and credits of vendors</b>		69,335	65,240
<b>Total short-term debt</b>		<b>115,668</b>	<b>595,678</b>
<b>Long-term debts</b>			
Bank loans (roubles)	8.6-11.2%	2,200,079	2,200,079
Bank loans (euros)	3-4.5%	1,855,504	1,860,757
<b>Total bank loans</b>		<b>4,055,583</b>	<b>4,060,836</b>
<b>Bonds (roubles)</b>		<b>4,483,381</b>	<b>4,479 068</b>
Vendor financing (roubles)	6.5-9%	31	110
Vendor financing (US Dollars)	6.5-9%	19,731	257,723
Vendor financing (euros)	6.5-9%	75,738	111,286
<b>Total vendor financing</b>		<b>95,500</b>	<b>369,119</b>
Promissory notes (roubles)	23%	2,496	5,390
Promissory notes (US Dollars)	6-8.5%	3,869	12,574
Promissory notes (euros)	9.7%	25,133	26,200
<b>Total promissory notes</b>		<b>31,498</b>	<b>44,164</b>
Other loans (roubles)	15.40%	6,907	6,743
Other loans (US Dollars)	6.5-9%	8,932	9,477
<b>Total other loans</b>		<b>15,839</b>	<b>16,220</b>
<b>Less: current portion of long-term borrowings</b>		<b>(1,818,839)</b>	<b>(791,969)</b>
<b>Total long-term borrowings</b>		<b>6,862,962</b>	<b>8,177,438</b>

Long-term borrowings include interest of 5,198 as of 30<sup>th</sup> June 2006 (in 2005 – 5,231). As repayment of the said debt in respect of interest is not expected before the year 2007, it has been classified as a long-term debt.

The long-term and short-term debts under credits and loans were distributed among the following currencies as of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005:

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Russian roubles	6,793,207	7,278,444
US dollars	38,284	285,993
Euros	1,965,978	2,000,648
<b>Total</b>	<b>8,797,469</b>	<b>9,565,085</b>

### 15. Accounts payable and charged liabilities

Accounts payable, expenses charged and advances received as of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005 included:

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Accounts payable in respect of principal business	405,278	454,493
Subscribers' advance payments	413,503	348,719
Settlements with equipment suppliers and contractors for capital construction	306,629	113,535
Accounts payable in respect of wages and compensation pays	631,984	628,935
Other accounts payable and current liabilities	106,059	68,779
<b>Total</b>	<b>1,863,453</b>	<b>1,614,461</b>

Other accounts payable include the debt related to voluntary property insurance, trade union fees and agency accounts payable.

### 16. Debt in respect of taxes and social security

As of 30<sup>th</sup> June 2006 and 31<sup>st</sup> December 2005, the Company had the following short-term liabilities in respect of taxes payment:

	30 <sup>th</sup> June 2006	31 <sup>st</sup> December 2005
Value added tax	160,181	364,937
Property tax	104,435	90,540
Tax on income of individuals	64,198	20,733
Single social tax	162,158	213,862
Other taxes	4,893	4,164
<b>Total</b>	<b>495,865</b>	<b>694,236</b>

Payment of value added tax of 46,669 (in 2005 – 245,149) is conditional upon collection of pays from customers or write-off of the respective accounts receivable.

## 17. Income

<b>By income types</b>	<b>for 6 months of 2006</b>	<b>for 6 months of 2005</b>
Local telephone calls	4,645,908	3,887,990
Long-distance and international telephone calls	-	2,695,873
Zonal telephone calls	495,916	653,265
Services for national operators	2,265,637	515,813
New services (Internet, ISDN, ADSL, IP-telephony)	648,142	493,405
Other communication services	500,002	496,918
Installation and connection fees	233,308	353,251
Radio and TV broadcasting	167,699	162,528
Data transfer and telematic services	233,302	117,527
Provision of telephone channels for use	147,934	115,975
Documentary telecommunication	17,715	27,334
Other income	474,470	393,027
<b>Total</b>	<b>9,830,033</b>	<b>9,912,906</b>

The Company identifies sales by the following major customer groups:

<b>By customer groups</b>	<b>for 6 months of 2006</b>	<b>for 6 months of 2005</b>
Residential customers	4,750,792	5,911,979
Corporate customers	4,295,126	3,191,458
Government customers	783,841	808,721
Budget - tariff compensation	274	748
<b>Total</b>	<b>9,830,033</b>	<b>9,912,906</b>

## 18. Other operating expenses, net

	<b>for 6 months of 2006</b>	<b>for 6 months of 2005</b>
Expenses for security and fire protection services	176,818	142,535
Expenses for the agent's fee	146,298	45,931
Deductions to Universal services reserve	86,343	-
Expenses for premises rent	91,677	102,777
Expenses for advertising	62,149	38,912
Post services	57,801	33,712
Property insurance	53,753	63,523
Membership fees, charity and funds transferred to trade union organizations	51,297	44,060
Transportation services	48,843	57,410
Fees to Non-profit partnership	44,000	59,599
Expenses for audit and consulting services	41,886	48,712
Business travel expenses and representation costs	40,465	41,670
Training expenses	16,578	21,151
Other expenses	143,887	256,262
<b>Total</b>	<b>1,061,795</b>	<b>956,254</b>

**19. Interest expense, net**

	<b>for 6 months of 2006</b>	<b>for 6 months of 2005</b>
Interest income	(37,467)	(49,369)
Interest expenses	376,578	483,054
Interest expense accrued under financial lease agreements	54,055	73,379
Less: Capitalized interest	(32,935)	(142,670)
<b>Total</b>	<b>360,231</b>	<b>364,394</b>