

OJSC Dalsvyaz: The 1st half-year 2006 Operating Profit of the Company (IFRS) is up 2,6 times to 998,7 mln rub.

Vladivostok, September 15, 2006: OJSC Dalsvyaz (RTS: ESPK, MICEX: DLSV, US OTC market: FEE0Y, the Frankfurt and Berlin Stock Exchanges: D7A) announces 1st half-year 2006 operating results according to International Financial Reporting Standards (IFRS).

Key Financial Indicators

Mln rub.	1st half-year 2006	1st half-year 2005	Ch 1 st h/y 2006
Revenues	5 167,4	4 955,1	
Revenues from Communications Services	4 983,0	4 877,2	
Operating Expenses Before Depreciation	3 490,9	3 987,4	
Depreciation	677,7	587,1	
Operating Profit	998,7	380,6	
OIBDA¹	1 676,4	967,7	
OIBDA margin,%	32,4	19,5	
EBITDA ²	1 704,3	1 167,3	
EBITDA margin,%	33,0	23,6	
Net Profit	367,0	166,3	
Net Profit Margin,%	7,1	3,4	

According to Director General of OJSC Dalsvyaz Anton Alekseev, in the first half-year 2006 the Company has increased the operating efficiency indices growth rates: EBITDA, OIBDA, net profit in the first half-year 2006 were growing faster, than in 2005. The growth drivers were: the revenues from new types of communications services, services to Russian communications operators and services for the provision of local telephone connections as well as stringent control over operating charges. By half-year results, the revenue growth rate exceeded the growth rate of operating expenses by 13,2%.

Anton Alekseev noted that the financial result considers the influence of revenues and costs recalculation by contracts with the inner operators in connection with approval by Rossvyaznadzor starting with July 1, 2006 of rates for connection and traffic transmission (rates in the 1st half-year were higher than the approved ones).

Notwithstanding an increase in interest-bearing debt (45,8%) up to 5 842,4 million rub. which was due to the need for refinancing in the end of 2006 of the bonded loan and financing the investment program of the Group, the Company managed to enhance such parameters as "Interest expenses / OIBDA", "Net debt/ EBITDA" compared to 2005. A high share of equity capital in the Liabilities (44,3%) is indicative of the high financial independence of the Company. Using good perspectives of the communications market of the Far East and the strong Company position, Management will continue working on the increase of efficiency of the Group Dalsvjaz – noted Anton Alekseev.

REVENUES

Dynamics and Structure of Revenues from Communications Services:

	1П2006, млн. руб.	Удельный вес, %	1П2005, млн. руб.	Удельный вес, %	Изменение 1П2006 / 1П2005, %
Local telephone connections	1 651,2	33,1%	1 357,3	27,8%	21,7%
Services to Russian Communications Operators	1 006,1	20,2%	520,7	10,7%	93,2%
Long-Distance and International Telephone Connections	687,4	13,8%	1 662,0	34,1%	(58,6%)
New Services (Internet, Data Transfer)	642,8	12,9%	462,6	9,5%	39,0%
Cellular Services	461,2	9,3%	229,2	4,7%	101,2%
Other Communications Services	201,8	4,0%	203,2	4,2%	(0,7%)
Installation and Connection Fee	148,8	3,0%	276,7	5,7%	(46,2%)
Radio and TV-Broadcasting	99,2	2,0%	90,2	1,8%	10,0%
Lease of Telephone Channels	72,0	1,4%	60,7	1,2%	18,6%
Documentary Telecommunications	12,5	0,3%	14,6	0,3%	(14,4%)
Total Income from Communications Services	4 983,0	100,0%	4 877,2	100,0%	2,2%

Dalsvyaz revenues in the 1st half-year 2006 totaled 5 167,4 million rub. (+4,3%), revenues from communications services increased up to 4 983,0 million rub. (+2,2%). The revenues increase was due to:

- The income growths from new kinds of communications services (+39%), including, from high-speed DSL Internet access services (+131%);
- The income growth from the provision of local telephone communications services (+21,7%);
- The income growth from the provision of services to the Russian communications operators (+93,2%);
- The income growth from cellular services (+101,2%).

Local Telephone Services: In the 1st half-year 2006 income was up by 21,7% to 1 651,2 million rub. (In the 1st half-year 2005 – 1 357,3 million rub.). The income growth was due to an increase in the number of main telephone sets up to 1 330 376 (1st half-year 2005 – 1 280 789), and an increase in the rates for local telephone connections in November 2005 on average by 16% for all categories of users.

International and Long-Distance Telephone Services: Income was down by 59% to 680,9 million rub. (In the 1st half-year 2005 – 1 662,00 million rub.). The decrease of revenues from provision of international and long-distance communications services is caused by entry into force of bylaws regulating interaction of intrazone and long-distance operators. International and long-distance communications services are provided by OJSC Rostelecom and OJSC MTT (in 1st quarter 2006 only by means of service cards). Users' payments for the consumed services of international and long-distance telecommunications services are the revenue of OJSC Rostelecom and OJSC MTT. OJSC Dalsvyaz on behalf and upon authorization of OJSC Rostelecom and OJSC MTT performs settlements with users for the services of international and long-distance telecommunications provided to them. Since 01.01.2006 OJSC Dalsvyaz gains income from long-distance communications only in the part of providing the intrazone communications to subscribers.

New Communications Services: In first half-year 2006 a fast growth rate was demonstrated by income from the new telecommunications services. As compared to 2005, income from the new types of services rose by 39% to 642,8 million rub.

Income from the Internet services reached 580,8 million rub. (+66%). The number of dial-up Internet access users grew by 49% to 179 989 subscribers (1st half-year 2005 – 120 633 subscribers).

The number of broadband Internet users grew by 268% to 59 541 users (1st half-year 2005 – 16 141 subscribers), including the number of users of DSL Internet access services, which grew by 246% to 45 567 subscribers (1st half-year 2005 – 13 047 subscribers).

Cellular Services: Income grew by 101,2% to 461,2 million rub. (1st half-year 2005 – 229,2 million rub.). The cellular subscriber base expanded by 95% to 225 703 subscribers. Of whom the Kamchatka region – 48 851 subscribers (1st half-year 2005 – 23 035), Magadan Region – 34 611 (1st half-year 2005 – 17 759), BIT Ltd. – 4 384 (as of 01.01.06 years - 1 358) *, CJSC Akos 137 857 (1st half-year 2005 – 74 872).

Income from Communications Operators: Among the general factors that influenced the positive Dynamics of the Company's income growth, one should note an increase in income for interconnection and traffic transit from Russian operators.

Income from Russian operators have was up by 93,2% to 1 006,1 million rub. Substantial income growth is connected with the changes in the legislation which came into force on January 1, 2006, regarding interaction between operators. Innovations in the legislation have positively influenced the income of OJSC Dalsvyaz from traffic transmission of local, intrazone and long-distance, international communications operators.

OPERATING EXPENSES
Dynamics and Structure of Operating Expenses:

Operating Expenses	1П2006, mln.rub	Share, %	1П2005, mln.rub	Share, %	Change 1П2006 / 1П2005, %
Payroll, Other Payments and Welfare Allocations	1 905,30	45,7%	1 985,90	43,4%	(4,1%)
Depreciation and Amortization	677,7	16,3%	587,1	12,8%	15,4%
Materials, Repairs and Services, Public Utilities	450,4	10,8%	426,1	9,3%	5,7%
Taxes, Other than Income Tax	91,5	2,2%	86,8	1,9%	5,4%
Expenses on Communications Operator Services – Russian Companies	376,9	9,0%	839,3	18,3%	(55,1%)
Bad Debt Expenses	159,1	3,8%	37,5	0,8%	324,3%
Profit (Loss) from disposal of Fixed Assets	-51,5	-1,2%	32,6	0,7%	(258,0%)
Other Operating Expenses, Net	559,2	13,4%	579,2	12,7%	(3,5%)
Total Operating Expenses	4 168,60	100%	4 574,50	100%	(8,9%)

Stringent expense control allowed the Dalsvyaz Group to bring down expenses by 8,9% in the reporting period, in 2005 there was a growth of operating expenses by 11,7%.

In the 1st half-year 2006 the payroll costs and other welfare payments to personnel (including termination benefits and provisions for unused vacations) went down by 4,1% which had to do with the implementation of OJSC Dalsvyaz' personnel reduction program.

The average monthly wage at OJSC Dalsvyaz in the 1st half-year 2006 increased by 15% and reached 16 397 rub. (1st half-year 2005 – 14 271 rub.). The number of OJSC Dalsvyaz' employees on payroll declined from the beginning of 2006 by 909 person to 15785 employees (or by 5,5%).

Expenses on operator services in comparison with 1st half-year 2005 were down by 55,1% and constituted 376,9 million rub. It was caused by the change of conditions of interaction with OJSC Rostelecom and the connected local communications operators since January 1, 2006.

A 15,4% expense growth for the "Depreciation and Amortization" item to a level of 677,7 million rub. was associated with completion of the construction and commissioning of facilities.

A 5,4% tax growth (other than income tax) up to 91,5 million rub. compared with 1st half-year 2005 was accounted for by a tax base increase.

From the beginning of year the Bad Debt Provision was increased by 107,1 million rub. (43,1%) to 355,8 million rub. Basically, it was caused by disagreement of some of the connected operators to pay for services of the Group for connection and traffic transmission according to the requirements of the changed branch legislation. After approval by Rossvyaznadzor on July 1, 2006 of the rates for connection and traffic transmission, the situation improved. By the moment of reporting publication, the contractual relations have been concluded with 95% of operators who are implementing their activity in the license territory of the Group (the mutual relations have not been formalized with 5 operators only).

Other operating expenses slightly increased (by 3,5%) and constituted 559,2 million rub. Material growth was observed for the items: fire protection and private security costs (17,1%), rent expenses (23,3%), agency fee expenses (in the 1st half-year 2005 there were no expenses), advertising expenses (194,7%), audit and consulting services' expenses (47,0%). Expenses were reduced for the items: transportation services (70,5%), payments to non-profit partnership (95,7%), membership fee, charitable contributions, payments to trade unions (38,0%).

As a result, the "OIBDA" index was up by 73,2% to 1 676,4 million rub., the "OIBDA Margin" index reached 32,4% (1st half-year 2005 – 19,5%). Operating profit surged by 162,4% to a total of 998,7 million rub.

OTHER INCOME AND EXPENSES

Non-operating loss for the reporting period stood at 289,2 million rub. (1st half-year 2005 – loss of 61,8 million rub.). It is accounted for by profit reduction from implementation of financial investments by 208,1 million rub. to 0,4 million rub. High profit level in 1st half-year 2005 is accounted for by the sale of the Company' share of participation in OJSC Dal Telecom International.

Interest expenses (net) increased by 21,3% to 317,1 million rub. It was caused by loan interest expenses growth (71,0%). Rate of a gain of these charges for 1 half-year 2006 almost in 2 times below rate of a gain for 2005. Interest expenses on financial leasing contracts for the 1st half-year 2006 compared to 1st half-year 2005 were down by 23,0% to 128,2 million rub.

BORROWED CAPITAL

Net assets of the Company as of June 30, 2006 compared to December 31, 2005 rose by 3,7% to a total 7108,7 million rub. (December 31, 2005 – 6856,4 million rub.), with the share of borrowed capital growing by 4,2% from 51,5% to 55,7%.

Interest-bearing debt was up by 1 834,1 million rub. (45,8%) to 5 842,4 million rubles compared to the beginning of year. It is accounted for by accommodation in June, 2006 of bonded loans of series D2 and D3 with total amount of 3 500 million rub. The Company allocated part of money (1 837 million rub.) raised from placement of bonded loan for refinancing of bank credits and bill loans which reduced the cost of servicing of borrowed capital. The remaining part is put on deposit and will be used for repayment of bonded loan of series D1 and financing of the Company's investment program. Therefore the Company's net debt for the 1st half-year changed slightly (4,9%) from 3 850 million rub. to 4 039 million rub.

	June 30, 2006, mln rub.	December 31, 2005 (audited), mln rub.	Change. %
Interest-Bearing Debt	5 842,4	4 008,3	45,8%
Net Debt	4 039,1	3 850,0	4,9%
Interest Expenses / OIBDA,%	18,9%	27,0%	-
Net debt / EBITDA,%	237,0%	329,8%	-
Net Debt / Revenues,%	78,2%	77,7%	-

million rub. The indicators characterizing the debt burden are given in the Table (3).

You can find additional information on the Company at the site www.dsv.ru, in the complex information disclosure system the SREEN www.skrin.ru, Information Agency "Interfax" www.interfax.ru, Information Agency «AKM» www.akm.ru.

(1) OIBDA index is calculated as income less operating expenses before depreciation;

(2) EBITDA index is calculated as pre-tax profit without depreciation and interest expenses (net);

(3) 'Interest-Bearing Debt', 'Net Debt' indices are provided as of the reporting dates, 'EBITDA', 'OIBDA' indices are calculated for the corresponding periods.