

APPROVED by
Annual general meeting of shareholders of
Open Joint Stock Company
“VolgaTelecom”
June 26, 2006
Minutes № 6 of June 27, 2006

Chairman of the meeting,
OJSC “VolgaTelecom” General Director
_____ S.V. Omelchenko

ANNUAL STATEMENT of OJSC “VOLGATELECOM”

FOR YEAR 2005

Nizhny Novgorod city,
2006

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INFORMATION ABOUT THE COMPANY

Full brand name

Open Joint Stock Company “VolgaTelecom”

Location

Russian Federation, 603000, Nizhny Novgorod city, M.Gorky square, Dom Svyazi

The date of state registration of the Company and the registration number

Certificate of state registration HPII-HH № 203362 of June 28, 2002; state registration number 448.

OJSC “VolgaTelecom” was registered in united state register of legal entities by the Inspection of Russia’s Ministry of Taxation for Nizhegorodskiy district of Nizhny Novgorod city on August 1, 2002 under the basic state registration number 1025203014781.

The Company was registered by Order of the head of administration of Nizhny Novgorod city № 1605-p of December 15, 1993 as OJSC “Nizhegorodsvyazinform” as a result of privatization of state enterprise of communication and informatics “Rossvyazinform” of Nizhny Novgorod oblast.

Basing on the resolution of general meeting of shareholders of OJSC “Nizhegorodsvyazinform” of November 9, 2001 the Company was reorganized by way of affiliation to it of OJSC “Kirovelectrosvyaz”, OJSC “Martelcom”, OJSC “Svyazinform” of the Republic of Mordoviya, OJSC “Electrosvyaz of Orenburg oblast”, OJSC “Svyazinform” of Penza oblast, OJSC “Svyazinform” of Samara oblast, OJSC “Saratovelectrosvyaz”, OJSC “Udmurt Telecom”, OJSC “Ulyanovskelectrosvyaz”, OJSC “Svyazinform” of the Republic of Chuvashiya.

General meeting of shareholders of OJSC “Nizhegorodsvyazinform” on June 28, 2002 passed the resolution on renaming the Company into OJSC “VolgaTelecom”.

WELCOMING REMARK OF THE GENERAL DIRECTOR

Dear shareholders!

Presenting the report about OJSC “VolgaTelecom” performance we are happy to note that the Company continued its active development. Pursuant to development forecasts adopted in the Company we have made real steps to improve operating efficiency and to strengthen OJSC “VolgaTelecom” positions at telecom market of the Volga region.

The major total of year 2005 was positive flow of income due to high rate of increase of production capacities, implementation of new technologies and realization of expert tariff policy with due account for market requirements. The Company’s proceeds exceeded 21,3 billion rubles, and the net profit – 2,23 billion rubles. The basic gain of income was achieved due to the development and increase in the volumes of local telephone communication services: the network installed capacity reached 4 966 thousand numbers, digitalization level grew by 7% and made up 63, 3%. The completion of a number of important projects of development of data transfer network services and Internet access allowed for considerable increase in the number of users, almost fourfold by dedicated line access and by 42% - by dial-up access to the Internet. In 2005 the income from provision of services based on high technologies grew more than 60%.

OJSC “VolgaTelecom” occupies a leading position at the market of communication and information technologies in the region. The Company is successfully solving the tasks of communication facilities development, of modernization of telecom infrastructure, including on the basis of modern NGN technologies, and of implementation of hi-tech communication types.

Upon the whole the year of 2005 was one more year of confident onward progress. OJSC “VolgaTelecom” shares value at home market grew by 1,2 times – for ordinary shares and by 1,6 times – for preferred shares. The Company’s securities value at external market grew by 14%. Capitalization level reached 1,3 billion US dollars. Demonstration of financial standing strengthening was the fact that OJSC “VolgaTelecom” was included into the list of top 50 (by capitalization level) largest companies in Russia.

Today we may speak with confidence that the Company has created the technical base for further development and business diversification under the conditions of evolving competition, implementation of technologies and solutions aimed to the increase of the Company’s profitability and economical efficiency. OJSC “VolgaTelecom” has a unique technical, economic and the most important – human resources potential. This affords grounds to forecast OJSC “VolgaTelecom” successful activity which in future will give powerful impetus to the development of communication industry in the Volga Federal district.

OJSC “VolgaTelecom” General Director

S.V. Omelchenko

I. REPORT OF THE BOARD OF DIRECTORS

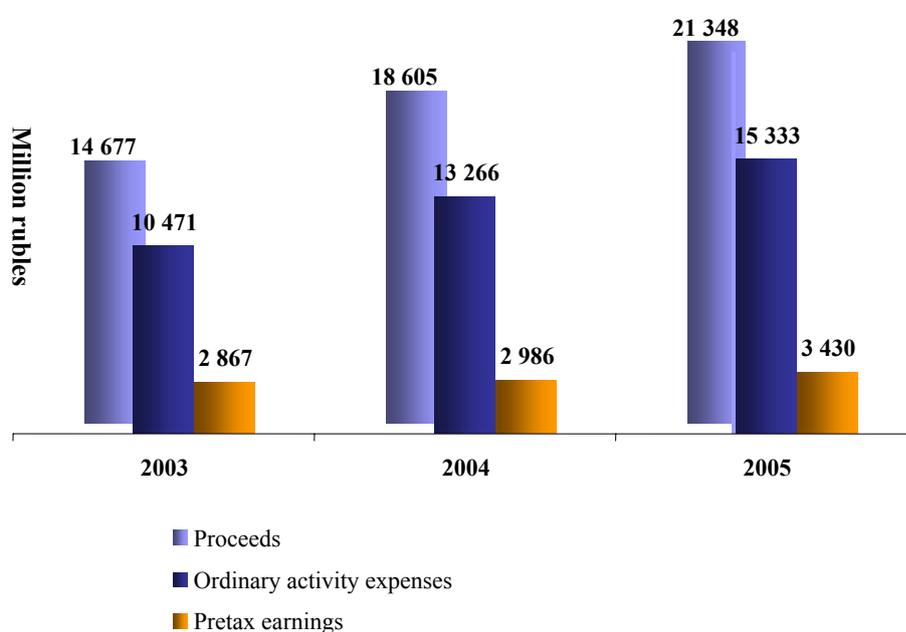
1.1. Overall assessment of the results of the Company's financial and economic activities in the reporting year.

The Company's performance is affected both by external factors: change of methods of government regulation of telecom market and of competitive situation at the markets, level of solvent demand (socio-economic situation in the regions where the Company is operating) and by internal factors: selected strategy of development, marketing policy, cost optimization, personnel potential, labor efficiency level and other.

Basic financial-economic performances of the Company in 2005 are provided in the chart:

OJSC "VolgaTelecom" basic financial performances record.

Chart 1



The Company's efficient business development was promoted by weighted policy in regard to the application of funds for the Company's operation. Herewith, the task was solved to increase personnel income and their social protection, to develop the networks and communication infrastructure and to optimize other expenses.

Improvement of OJSC "VolgaTelecom" performances has a positive effect on the Company's ratings by leading analysts and potential investors, which allows for the Company among other things to reduce the cost of raised funds and to optimize the expenses. Growth of capitalization and market price of the Company's shares in 2005 allows for the Company's shareholders to look forward optimistically.

In 2005 OJSC "VolgaTelecom" met budget targets for operating surplus, balance sheet profit and net profit. The indexes of the Company's operating efficiency demonstrate positive behavior both per a line and per an employee – revenue growth rate per an employee for the year made up 118%, the number of lines per an employee grew by 10% and made up 97, EBITDA grew by 23%.

Table 1

Index description	Million rubles
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Proceeds	21 348,4
Communication services revenues	20 787,6
Ordinary activities expenses	15 333,1
Sales profit	6 015,3
Pretax earnings	3 429,8
Net profit	2 261,4

1.2. Information on the Board of directors' activity as regards the enforcement of priority trends of the Company's development, on the sessions of the Board of directors, the committees with the Board of directors and the most important administrative actions adopted at these sessions.

The Board of directors exercises strategic management of the Company's activity and control over reasonable and bona fide performance by the Company's executive bodies of the Company's current activity in order to ensure long-term stable development of the Company and to get benefit from this activity by the shareholders. It makes decisions on active cooperation of the Company with investors, creditors and other interested parties in order to increase the growth of the Company's capital, including the growth of its assets, the price of shares and other securities, and to enhance the Company's image.

Main issues considered at the sessions of the Board of directors in 2005:

January 28, 2005 – the Provision on OJSC “VolgaTelecom” confidential information protection was approved.

February 28, 2005 – the Company's budget for 2005 was approved; the Forecast of the Company's economic development for 2005 - 2007 was approved; OJSC “VolgaTelecom” strategy of providing fixed line communication services on the territory of Samara city and Samara oblast was considered.

March 29, 2005 – Provision on OJSC “VolgaTelecom” dividend policy was approved; terms and conditions of contracts with the members of the Company's Management board were approved, also the Provision on emoluments of the members of OJSC “VolgaTelecom” Management board was approved.

March 31, 2005 – due to the expiry of validity term of labor contract and on the basis of application of the Company's General Director Lyulin V.F. the decision was made to terminate the authorities of the Company's General Director Lyulin V.F.; Kirillov A.I. – first deputy to the General Director (Technical director) of OJSC “VolgaTelecom” was appointed acting General Director of OJSC “VolgaTelecom”.

April 6, 2005 – the Provision on the Department of internal audit of OJSC “VolgaTelecom” was approved.

April 26, 2005 – Omelchenko S.V. was appointed OJSC “VolgaTelecom” General Director for the term of 2 years; the Concept of increasing OJSC “VolgaTelecom” capitalization for 2005 – 2007 was approved.

June 15, 2005 – the plan of forming “Program of raising OJSC “VolgaTelecom” competitiveness at communication services market up to 2010” was approved.

June 27, 2005 – adjustment of the Company's budget for 2005 was approved; the decision was made to introduce changes into the Provision on the Committee for audit with the Company's Board of directors and into the Provision on the Committee for staff and remuneration with the Company's Board of directors; the following Provisions were approved: Provision on the procedures (system) of internal control of the Company; Provision on the Company's information policy; Provision on the procedure of using the information on the Company's activity, on its securities and transactions with them, the information not being accessible to the public and its misuse or disclosure is capable to affect materially the market value of the Company's securities.

June 28, 2005 – for the term of its powers the Board of directors established the following Committees with the Company's Board of directors:

- The Committee on corporate governance;
- The Committee for strategic development;
- The Committee for staff and remuneration;
- The Committee for audit.

July 12, 2005 – the Company’s Management board with a new structure was formed.

October 3, 2005 – terms and conditions of the contract with LLC “Ernst & Young” to render audit services for OJSC “VolgaTelecom” statement for 2005 prepared in accordance with Russian and International Financial Reporting Standards were approved; the decision was made to float bonded loans of BT-2 and BT-3 series.

December 22, 2005 – the Company’s budget (business-plan) for 2006 was approved; the Program of providing modern communication services to general public and to organizations was approved.

Enhancement of efficiency and quality of the Board of directors’ operation was promoted by the established Committees with the Board of directors; these Committees by way of preliminary examination of some of the issues, related to the competence of the Board of directors, prepared recommendations on making decision on the issues relating to their competence.

The Committee for staff and remuneration with the Company’s Board of directors and the Committee for audit with the Company’s Board of directors are headed by independent directors of the Company’s Board of directors.

In 2005 the **Committee for audit** held 14 sessions.

The materials presented for discussion in accordance with approved functions of the committee included the issues of interaction with bodies performing external and internal control and also the issues of the Company’s financial reporting.

During the reporting period the **Committee for staff and remuneration** held 16 sessions and considered the following issues:

- Regular appraisal of General Director’s activity, of the members of the Management board;
- Preliminary approval of candidates for the post of managers of branches and representation offices and dismissal of the managers of the specified structural subdivisions from office;
- Forming the proposals on the structure of the Management board, determination of term of its powers and also on early termination of powers of Management board members;
- Consideration of terms and conditions of contracts (additional agreements) with managers of branches and representation offices, and others.

In 2005 the **Committee on corporate governance** held 14 sessions. The following issues were considered:

- The issues related to convening, preparation and holding of annual general meeting of the Company’s shareholders;
- Proposals on introducing changes and addenda to the Charter and other internal documents of the Company subject to approval by general meeting of shareholders and the Board of directors of the Company;
- The issues of implementing corporate transformations in the Company;
- Determination of basic principles of building the Company’s corporate structure.

The Committee for strategic development held 16 sessions and elaborated proposals and recommendations:

- On priority trends of the Company’s activity, including on the budgets of various levels, on perspective plans, strategies and programs of the Company’s development;
- On improving the system of budgeting, the process of investment planning, monitoring

and analysis in the Company;

- On the policy of assets and liquidity management;
- On the strategy of capitalization increase;
- On the Company's dividend policy;
- On determining the procedure of the Company's interaction with organizations in the capital of which the Company participates.

II. MAJOR CORPORATE EVENTS IN 2005

2.1. On holding general meetings of shareholders (annual and extraordinary):

On June 28, 2005 annual general meeting of shareholders of OJSC "VolgaTelecom" in the form of shareholders joint attendance was held.

The agenda of the general meeting of shareholders:

1. Approval of the annual report, annual accounting statement, including profit and loss statement (profit and loss accounts), distribution of profit and loss of the Company based on the results of the report (2004) fiscal year.
2. On payment of dividends for 2004, the size, time and form of their payment on the shares of each category.
3. Introduction of changes and addenda to the Company's Charter.
4. Introduction of changes and addenda to the Provision on the Company's Board of directors.
5. Introduction of changes to the Provision on the procedure of holding a general meeting of stockholders of the Company.
6. Election of the members of the Company's Board of directors.
7. Election of the members of the Company's Auditing committee.
8. Approval of the Company's auditor for 2005.
9. Definition of the amount of remuneration to the members of the Company's Board of directors.
10. On termination of the Company's participation in non-commercial organization "Association of operators of federal network of business servicing "ISKRA" by leaving its membership.
11. On termination of the Company's participation in non-commercial organization "Association of operators of federal cellular network NMT-450" by leaving its membership.
12. On termination of the Company's participation in non-commercial organization "Union of manufacturers and consumers of communication facilities equipment" by leaving its membership.

2.2. About participation in road-shows, large exhibitions and conferences.

In 2005 OJSC "VolgaTelecom" took part in a number of large special conferences.

In **March** Kirov branch took part in VII specialized exhibition "World of computers and communication 2005" and was awarded with the diploma of the oblast's Government "For large contribution to the development and implementation of information technologies in Kirov oblast".

March 24-26 - OJSC "VolgaTelecom" branch in the Republic of Udmurtiya took part in inter-regional All-Russia exhibition "Computer. Communication. Security".

April 15-17 – OJSC "VolgaTelecom" took part in specialized exhibition "E-COMMUNICATIONS" that gathered together in Ulyanovsk the leaders of market of information technologies of Ulyanovsk oblast and representatives of neighboring regions.

From April 26 to 28 OJSC "VolgaTelecom" participated in exhibition "*Informresource 2005*".

From September 21 to 23 OJSC “VolgaTelecom” took part in X International Anniversary exhibition fair “Business Mordoviya-2005” in Saransk town.

From September 28 to October 1 OJSC “VolgaTelecom” acted as an organizer and major participant of V international exhibition forum “Infocommunications of Russia – XXI century” in Nizhny Novgorod city.

October 12-15 - Exhibition “STI Samara”, OJSC “VolgaTelecom” Samara branch took part in it.

October 26-27 – OJSC “VolgaTelecom” branch in the Republic of Mariy El took part in IV Forum of manufacturers and entrepreneurs “Made in Yoshkar-Ola”.

November 1-3 – OJSC “VolgaTelecom” took part in IX specialized exhibition “IT. Communication. Security.” held in Saratov city.

November 1-5 – OJSC “VolgaTelecom” took part in holding XX International science-industrial forum “Russia United” which is annually held on the instructions of Russian Federation Government in Nizhny Novgorod city. OJSC “VolgaTelecom” presented the stand demonstrating the Company’s services.

November 17–20 – OJSC “VolgaTelecom” participated in “Electronic Penza” Fair.

December 16-17 – “COMEX XI” exhibition was held in Yoshkar-Ola within the framework of inter-regional forum of business technologies and innovations. One of the major participants of the exhibition - OJSC “VolgaTelecom” branch in the Republic of Mariy El – familiarized citizens of the Republic with the latest achievements in IT area.

In addition, in 2005 the Company took part in the following actions:

The specialists of OJSC “VolgaTelecom” Kirov branch held in Vyatskiy state university the seminar “Information technologies and telecommunications in modern world”.

“Internet technologies-2005” conference was held in Ulyanovsk branch of OJSC “VolgaTelecom”.

The branch in the Republic of Mordoviya took part in republican science-practical conference where the results of All-Russia contest of “100 best products of Russia” Program were summarized. By the results of regional stage of the contest the operation of OJSC “VolgaTelecom” branch in the Republic of Mordoviya was awarded Diploma of I order of the republican contest “Best products of Mordoviya” in “Services” nomination.

OJSC “VolgaTelecom” Samara branch became the winner of IV annual contest “Company of the year: best enterprises of Samara oblast” in nomination “For high social performance”.

Within the framework of special project of the oldest republican newspaper “Udmurtskaya Pravda” – “Men of the year” in “Communication” nomination S.M.Fomichev – director of the branch in Udmurtiya Republic was named the man of the year.

Within the framework of the program of Vyatka Chamber of Commerce and Industry “Under Mercury sign” Valery Petrovich Popovskiy – director of OJSC “VolgaTelecom” Kirov branch – was awarded honorary title “Director of the year” in nomination “Communication and telecommunication” for efficient implementation of management system in the company and for creative research.

During the year the Company actively conducted meetings and conference calls with analysts and managers of Russian and foreign investment companies and funds. These meetings were organized for the customers of these companies (largest Russian and foreign investment companies and funds). During the reporting period the Company held meetings with 61 company.

Within the framework of implementation of scheduled arrangements of the Concept of OJSC “VolgaTelecom” capitalization increase for 2005-2007 approved by the Board of directors, the Company participated in road-shows and also in a number of large conferences:

February 9-11, 2005 - the Company took part in III annual conference “Russia On-on-One” for the largest western investment funds in London organized by CJSC “United financial group”. As a result of round table and “One-on-One” meetings the Company held 22 meetings with 31 foreign institutional investors, among them: “ABN AMRO Asset Management”, “Eger-

ton Capital Limited”, “Emergent AM”, FCM, “Fidelity Europe”, “Libra Advisors”, “Northern Trust”, RZB AM, “Schroder IM”, “SocGen AM”, “Alliance Capital Management”, “Brookside Capital” (“Bain Capital”), “Capital Int'l UK”, “Charlemagne Capital Ltd.”, “Cheyne Capital”, “Citadel Investment Group”, “Deutscher Investment Trust AM”, “PLAZA BV” (“Erdgate Invest”), “Fortis Investments”, “Fortress Capital”, “Goldman Sachs Asset Management International”, “Hermes IM”, “Invesco Perpetual AM”, “Kairos Investment Management”, “Orkla Investments”, “Pictet AM”, “Putnam Investments”, “SAC Capital Advisors”, “Sloane Robinson”, “Spinnaker Capital Group”, and “Deutsche Bank”. In the course of these meetings the Company made the presentation of its operational and financial-economic activity, discussed the issues of current status of Russia’s enterprises and the problems that they faced and their potential solutions, the perspectives of the enterprises’ development and also the issue of communication industry privatization.

March 3-4, 2005 – the Company’s representatives presented the report on fixed line and mobile communication at specialized telecom conference in London organized by “Brunswick UBS”. As a result of “One-on-One” series of meetings the Company’s management held the meetings with CEOs of 4 largest foreign investment funds: “Maverick Capital”, “Baring Asset Management”, “Carmignac Gestion”, and “Morgan Stanley Investment Management”. In the course of these meetings the Company made the presentations on fixed line and mobile business.

June 22, 2005 – within the framework of annual Moscow’s conference held by “Renaissance Capital” for the largest international institutional funds, in Nizhny Novgorod the Company made the presentation on fixed line and mobile business at the meeting with analysts and managers of 14 international investment companies and funds, and also for their customers, among them were: “East Capital”, “New Advisors, AG”, “Firebird Management”, “State Teachers Retirement System of Ohio”, “Seneca Capital”, “Third Point Fund”, “Allianz Invest”, HK “Interros”, “Parma Asset Management”, “Pallada Asset Management”, “Wermuth AM”, “MIPP International”, “ROST CAPITAL Managing Company”, and “Renaissance Capital”.

September 7, 2005 – the Company organized and held conference call dedicated to the release of OJSC “VolgaTelecom” IFRS audited consolidated financial statement for 2004. 23 participants were registered in the conference call, between them were the largest investment funds and 5 of them were USA companies and funds.

September 28-30, 2005 – the Company took part in annual Moscow’s conference “Investments in Russian economy: key to success” traditionally organized and held by “Brunswick UBS”. Within the “round table” of telecom sector with the topic “Perspectives of Russia’ communication industry development” the Company read the report and made the presentation on the perspectives of OJSC “VolgaTelecom” development for 2005-2008 for leading Russian enterprises and world largest financial and investment companies.

2.3. On top management meetings with investment companies and funds.

In 2005 the Company held regular meetings and organized conference-calls with Russian and foreign analysts, with representatives of foreign and Russian investment companies and funds. The meetings were held both in the Company’s headquarters in Nizhny Novgorod and in Moscow:

February 14, 2005 – in Nizhny Novgorod the Company took part in the meeting with “Alfa Capital” portfolio manager and with analysts of OJSC “Alfa Bank”. At the meeting a wide range of financial and operational issues related to the Company’s activity was discussed, as well as the issues related to the Company’s fixed line and mobile business development, and also the issues of “Svyazinvest” privatization. In the course of the meeting the presentation was made on operating and financial-economic activity of the Company as well as the booklet of the Company’s annual statement for 2003.

April 7, 2005 – in Nizhny Novgorod the Company made the presentation on fixed line and mobile business at the meeting with analysts and managers of 8 investment banks and funds. The meeting was arranged by ING Bank (Eurasia) ZAO, among the participants were the representa-

tives of: “Templeton”, “Invesco”, “Vontobel”, “Banca Immobiliare”, “Studi & Investimenti”, “Alfa AM”, “Uralsib AM”, and “ING”.

November 23, 2005 – in Moscow the Company made the presentation of OJSC “VolgaTelecom” bonded loans of Bt-2 and BT-3 series for investment companies and banks.

2.4. On IR.

During 2005 the Company continuously worked with its investors: timely replies to requests, consultations as regards the work with the Company’s registrar, with transfer-agents, provision of information and reporting about the results of the Company’s activity, provision of copies of constituent documents and other internal documents of the Company, timely posting of information at the Company’s web-site in Internet in section “For Investors and shareholders”, preparation and provision of presentation materials at the meetings with analysts and CEOs of investment companies and funds, and other events. The Company provides transfer-agents servicing of its shareholders in the following branches: Ulyanovsk branch, Orenburg branch and the branch in Udmurtiya Republic. At the Company’s site there are the replies to frequently asked questions as regards the Company’s shareholders interaction with the registrar.

2.5. On obtaining (revision) of credit rating and of corporate governance rating.

January 31, 2005 – consortium “RID – Expert RA” assigned the Company National corporate governance rating at “B++” level. This is an average corporate governance rating level. This rating means that the risks of the Company’ corporate governance are low.

April 15, 2005 – “Standard & Poor’s” raised long-term corporate credit rating of OJSC «VolgaTelecom” from “B” to “B+” taking into account the improvement of its business position and stable financial performances. The outlook is “Stable”. Simultaneously, “Standard & Poor’s” raised OJSC “VolgaTelecom” long-term rating as per Russian scale from “ruA-” to “ruA+”.

April 15, 2005 – “Standard & Poor’s” raised long-term credit rating of the Company’s bonds issue (in rubles) of the amount of 1 billion rubles with maturity term in February 2006 as per Russian scale to “ruA+” level.

September 6, 2005 - Corporate Governance Ratings Services of “Standard & Poor’s” reduced CGR to CGR-4+ level (as per international scale) and to CGR-4.8 as per Russian scale. In opinion of International Rating Agency “Standard & Poor’s” the reduction of rating was connected with the growth of influence of the principal shareholder (OJSC “Svyazinvest”) on the Company’s strategic decisions, with OJSC “VolgaTelecom” provision of IFRS reporting after the annual general meeting of shareholders and with the concern of the practice of competitive struggle in the segment of Internet services.

In 2006 the Company is planning to publish its IFRS reporting for 2005 before holding the annual general meeting of shareholders.

September 6, 2005 – as a result of monitoring of current corporate events in OJSC “VolgaTelecom” conducted by rating agency “Expert RA”, National corporate governance rating was confirmed at “B++” level.

November 8, 2005 – the Company’s long-term corporate credit rating as per international scale was confirmed at “B+” level, outlook is “stable”.

December 14, 2005 – “Standard & Poor’s” assigned credit rating as per national scale at “ruA+” level to two issues of priority, non-secured, denominated in rubles, bonds of OJSC “VolgaTelecom” of BT-2 and BT-3 series with the amount of issues of 3,0 billion and 2,3 billion rubles correspondingly.

2.6. On bonded loans floatation.

In 2005 the Company floated two bonded loans.

On December 6, 2005 OJSC “VolgaTelecom” inconvertible, interest bearing, certified, bearer bonds with obligatory central storage of BT-2 and BT-3 series were floated at CJSC “Stock Exchange MICEX”. The maturity term of the bonds of each series is 5 years, with 3-years offer for BT-2 series bonds and without offer for BT-3 series bonds.

Total amount of BT-2 series bonds issue made up 3 billion rubles. The quantity of issued bonds was 3 000 000 pieces of the face value of 1 000 rubles of each bond. Based on the results of competitive tendering to determine the interest rate of the first coupon of BT-2 series bonded loan the rate of the first coupon was set to be equal to 8,20% per year. Efficient yield for repayment – 8,37% p.a.

Total amount of BT-3 series bonds issue made up 2,3 billion rubles. The quantity of issued bonds was 2 300 000 pieces of the face value of 1 000 rubles of each bond. Based on the results of competitive tendering to determine the interest rate of the first coupon of BT-3 series bonded loan the rate of the first coupon was set to be equal to 8,50% per year. Efficient yield for repayment – 8,68% p.a.

The issues organizer – OJSC “Svyazbank”, co-organizer – CJSC JSCB “Promsvyazbank”. Financial adviser – CJSC “Investment company AVK”. The issue’s coordinator is OJSC “Svyazinvest”. Co-underwriters: JSCB “AK BARS” (OJSC), LLC “Deutsche Bank”, OJSC JSCB “Eurofinance Mosnarbank”, CJSC “MMB”, “NOMOS-BANK” (CJSC).

The objective of bonded loans is to raise the company’s revenue performance and to finance the investment program. OJSC “VolgaTelecom” is making preparations for the implementation of a number of large scale projects aimed at the development of communication facilities of the Volga Federal district. The money raised by the loan in the first place will be allocated for realization of projects of introduction of high-tech services and communication network modernization, and also for re-financing of the Company’s credit portfolio in order to optimize the debt load.

2.7. Information about arrangements of maintaining the Company’s securities in quotation lists.

During the reporting period in order to maintain the Company’s shares in quotation lists of Russian organizers of trading at securities market – Non-Commercial Partnership RTS, OJSC “RTS” and CJSC “Stock Exchange MICEX” – the Company in due time and on regular basis sent to their attention the documents required in accordance with Russian legislation: reports about compliance with the norms of corporate governance code, the reports of the issuer of issuing securities, the lists of affiliated persons and entities, the Company’s accounting and financial statements, communications about material facts of the Company’s financial-economic activity and about the data that may materially affect the cost of the Company’s securities, newly adopted internal documents of the Company and changes into the existing ones.

2.8. Information about IR events and development of secondary market of shares (description of major events).

During 2005 OJSC “VolgaTelecom” carried out goal-oriented activity aimed at improving informational and investment transparency of the Company in order to increase the market price of its shares and to promote the Company at capital markets by way of IR methodical efforts with investment community and development of shares secondary market. .

In the first quarter of 2005 the Company worked out a medium-term plan of interaction with investment community, development of shares secondary market and improvement of corporate management. On April 26, 2005 the Company’s Board of directors approved the Concept of increasing OJSC “VolgaTelecom” capitalization for 2005 – 2007 (hereinafter – the Concept). The objective of this Concept elaboration is to increase the efficiency of arrangements conducted by the Company and aimed at the increase of capitalization, improvement of coordination of ac-

tions of the Company's various sub-divisions, and also for the analysis of the impact of policy realized by the management on the Company's capitalization.

Within the framework of fulfilling the arrangements scheduled by the Concept, the following major events realized in 2005 should be mentioned:

- During the reporting period the information of Russian and English versions of the Company's corporate web-site was constantly updated. Wherever possible the information in both the versions was given simultaneously. In the course of the site operation its structure is corrected in order to present the information in the best way for simplicity and convenience of its finding and apprehension.

- On June 28, 2005 the Company organized and held the annual general meeting of OJSC "VolgaTelecom" shareholders. In accordance with Russian Federation legislation requirements and also within the framework of information support of the preparation of holding the annual general meeting of shareholders the communication was prepared and released about the meeting; notification was published in "Rossiiskaya gazeta" newspaper about the annual general meeting of shareholders, the materials for the annual general meeting of shareholders were posted at the Company's site in the Internet (both in Russian and in English). Based on the results of the annual meeting there were prepared and distributed: press-release and material fact, in accordance with RF FCSM Rule № 03-32/nc of 02.07.2003 the resolutions of the annual general meeting of shareholders were published in "Rossiiskaya gazeta" newspaper. Along with compliance with Russian Federation legislation requirements there were carried out a number of arrangements in accordance with effective program of ADRs level-I (timely information distribution to the bank-depositary, provision of materials designed for familiarizing shareholders-participants in English, finalization of bulletins for voting by ADRs owners (proxy-cards)• Based on the results of the annual general meeting of shareholders held in June 2005 the Company issued the booklet of the Company's annual statement for 2004, this booklet was posted at the Company's web site and 260 copies were distributed between investment community – in Russia 72 copies, outside Russia – 188 copies, out of them 50 copies were sent to the Company's ADRs owners.

- The results of the activity for 2004, for the first quarter, for half of the year and for nine months of 2005 as per RAS were posted at the Company's corporate web site, and sent by request to investment companies and analysts.

- During the reporting period the Company constantly provided information about the Company's activity to target groups of investment community. Communications (press-releases) containing the information about the results of the Company's current activity, its plans and perspectives were prepared and distributed as per the distribution list and via the Internet (at the Company's corporate web site). Prepared materials about the Company's activity: quarterly reports of the issuer of issuing securities, quarterly accounting and annual financial statements of the Company, the lists of affiliated persons and entities, the Company's profiles made up on quarterly basis were posted at the Company's corporate web site. Communications about material facts affecting the Company's financial-economic activity and about the data that may materially affect the cost of the issuer's securities were published at the Company's corporate web site, in "Rossiiskaya gazeta" newspaper and in supplement to "FCFM Herald" as soon as they occur. Also, in accordance with current Russian legislation the Company timely sent the reporting to the attention of the body that regulates securities market – to RF FCFM.

- During 2005 the Company carried out monitoring and analysis of the market of shares of mega-regional companies of communication.

- In August the Company organized and held at FINAM the Internet-conference on the results of OJSC "VolgaTelecom" activity for the first half-year of 2005.

- On September 7 the Company organized and held conference call dedicated to the release of IFRS audited consolidated financial statement of OJSC "VolgaTelecom" for 2004.

- On October 17 the Company for the first time published the results of IFRS non-audited consolidated financial statement of OJSC "VolgaTelecom" for the first half-year of

2005. The Company posted the appropriate press-release and the reporting at its corporate web site and distributed it to the analysts.

- The information about the Company's current activity and its financial performances, as well as the comments to the issues of interest were provided by the Company upon requests of analysts (over the phone and by e-mail) from 10 investment companies and banks.

- In 2005 the Company actively held meetings and organized conference calls with analysts and managers of Russian and foreign investment companies and funds. During the reporting period the organizers of such meetings were such companies as OJSC "Alfa-bank", "Renaissance Capital", CJSC "United financial group", "Brunswick UBS", and "ING Bank». These meetings were also organized for the customers of these companies (largest Russian and foreign investment companies and funds). As a result of this work during the reporting period the Company held meetings with 53 companies. As a result of these arrangements the information about the Company regularly appeared in investment companies analytical reviews dedicated not only to telecom sector, but to Russia at large, it was published in central and local mass media and was constantly present at news wires of central and regional information agencies.

- During the reporting year the Company updated the list of analysts and investors with whom the Company is cooperating on permanent basis.

- The Company formed and regularly revised the list of contacts with international and Russian financial mass media. As of today this list includes 60 international and Russian information agencies and printing organs, among them 4 are international and 52 are from Russia (including 14 from Nizhny Novgorod city).

- During the reporting year the Company interacted with Russian rating agency "Expert RA" in connection with assignment and maintaining the Company's corporate governance rating and with international rating agency "Standard & Poor's" in connection with maintaining the Company's corporate governance rating and credit ratings.

- In January 2005 the Company's preferred shares and BT-1 series bonds were included into Quotation lists "A2" of NCP RTS, and ordinary and preferred shares and BT-1 series bonds of the Company were included into Quotation lists "A2" of OJSC "RTS".

- During the reporting period the Company carried out arrangements in order to maintain the Company's securities in quotation lists of Russian organizers of trade at securities market.

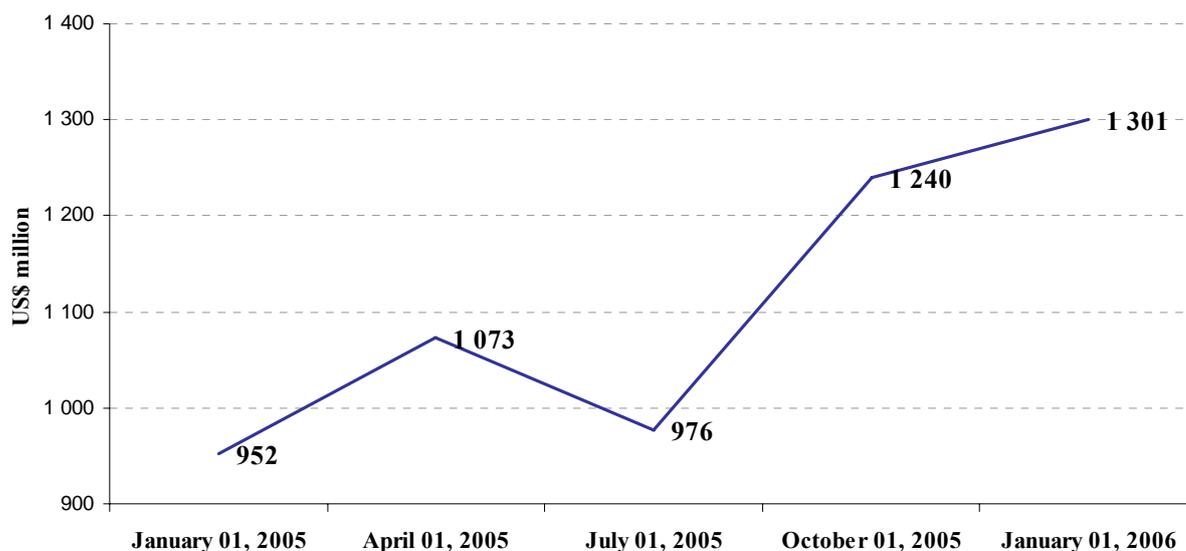
- Within the framework of activities to support acting program of ADR level-I the materials in English for the general meeting of shareholders (notice, voting bulletins, drafts of documents for the approval by the general meeting of shareholders, the Company's RAS audited accounting statement, the draft of the annual report) were distributed via JPMorgan Bank; the materials based on the results of voting by the Company's ADRs holders were prepared; the following documents in English were distributed to the Company's ADRs holders via JPMorgan: the booklet of the Company's annual report for year 2004, informational reports for investors, quarterly reports of the issuer of issuing securities, communications on material facts about the Company's financial-economic activity and on the data that may materially affect the cost of the Company's securities, the lists of affiliated persons/entities, published in mass media notifications about holding general meeting of shareholders and about the results of the general meeting holding, published in mass media notices about state registration of bonds issue and the procedure of disclosing the information about the issue of the Company's BT-1 series bonds and communication about state registration of the report on the results of the issue of the Company's BT-1 series bonds; the data about the Company's acquisition of over 20% of voting shares of other companies; communications about the Company's current activity; the minutes of the Company's shareholders meetings; the Company's documents in English were sent to US SEC; the information of the English version of the Company's web-site was constantly updated; within the terms of the agreement with JPMorgan the funds spent by the Company for legal company "Clifford Chance" services to obtain RF FCFM permission for floatation and circulation of the Company's securities outside Russia (within the framework of ADR program realization) and for

the assignment and maintaining by “Standard & Poor’s” of the Company’s corporate governance rating were claimed for reimbursement.

The result of the Company’s activity, including the realization of IR activities and development of secondary market of shares in 2005 was that market value of OJSC “VolgaTelecom” shares increased by 1,2 times for ordinary stock and by 1,6 times for preferred stock correspondingly, and the Company’s market capitalization grew from US\$952 million as of the beginning of the year to US\$1 301 million as of the year end, thus the gain of capitalization made out 37% (the calculation was made on the basis of the tendering results at NCP RTS).

OJSC “VolgaTelecom” capitalization record in 2005.

Chart 2



2.9. On charity.

In 2005 the Company carried out charity and sponsor activity within the terms of Provisions approved by the Company’s Management board: “On OJSC “VolgaTelecom” sponsor and charity activity” and “On Commission for rendering sponsor and charity activity of OJSC “VolgaTelecom””. The General Director by his order № 279 of 08.08.2005 approved the Commission for rendering sponsor and charity activity, the Commission consisting of 5 persons. Since the start of its operation the commission considered more than 150 applications of citizens and organizations.

The major trends of rendering sponsor and charity assistance were:

- Support and realization of programs and arrangements aimed at rendering material aid, medical and social support of children, disabled persons and other persons;
- Rendering support to communication industry employees;
- Support and realization of programs and arrangements aimed at strengthening the image and role of family in society and state, protection of motherhood and childhood;
- Support and realization of programs and arrangements aimed at assistance to intellectual development of man in the areas of enlightenment, education, science, culture, art;
- Support and realization of programs and arrangements in the areas of preventive care and protection of health, sport;
- Protection and proper upkeep of buildings, objects and territories having historical, cultural and environmental value;
- Support of programs in the area of science and enlightenment;
- Support of sport and cultural events.

In 2005 the Company rendered target assistance to citizens (because of hard material situation due to poor health and also caused by acts of God, fires, etc.) and organizations:

- Non-government public Fund for field hockey development (since 2003 the Company is the major sponsor of women field hockey team “VolgaTelecom”. The team became 4 times champion of Russia, won Russia’s Cup and was prizewinner of international contests);
- Russian Fund of communication history (Saint Petersburg);
- Educational institutions (orphan homes, kindergartens, schools, museums, Institutions of Higher Education, creative teams);
- Health care institutions;
- Russian Orthodox Church;
- Public organizations of veterans, disabled persons, participants in combat operations;
- Other organizations.

2.10. On work with general public, end-users of the Company’s new services.

Currently all the branches of OJSC “VolgaTelecom” are actively carrying out activities aimed at the improvement of level of customer servicing and provision of high quality services:

- Special sub-divisions for work with corporate customers were established;
- Activities are worked out to improve the servicing of both corporate and individual customers;
- Active sales policy is carried out;
- Special offers for various categories of users are formed;
- The posts of personal managers for VIP-customers were introduced;

Realization of marketing arrangements in 2005.

The Company actively participated in international and regional specialized exhibitions:

- “Infocom”, Moscow, Nizhny Novgorod, quarter 3 of 2005,
- “United Russia”, Nizhny Novgorod, quarter 4 of 2005.

The Company’s branches took part in regional exhibitions:

- Participation in exhibition “World of computers and communication” - graphic arts, advertising in mass media, leasing of exhibition grounds (Kirov city, quarter 1 of 2005);
- Activities dedicated to the celebration of 70-th anniversary of Kirov branch (Kirov city, quarter 1 of 2005);
- “Business Mordoviya” (the Republic of Mordoviya, quarter 3 of 2005);
- Participation in exhibition “100 best products of Mordoviya” (ADSL) (the Republic of Mordoviya, quarter 3 of 2005);
- “Call to Santa Claus!” (Nizhny Novgorod, quarter 4 of 2005);
- COMEX (the Republic of Mariy El, quarter 4 of 2005);
- “100 best products of the Republic of Mariy El” (the Republic of Mariy El, quarter 4 of 2005);
- “Business Yoshkar-Ola” (the Republic of Mariy El, quarter 4 of 2005);
- Enterprises of the Republic of Mariy El in Volzhsk town (the Republic of Mariy El, quarter 3 of 2005);
- Participation in exhibitions “Exchange yard” “Techinform” (Orenburg city, quarters 2 and 4 of 2005);
- Participation in business-fair “Innovation projects 2004-2005” (Samara city, quarter 2 of 2005);
- Participation in exhibition “Communication. Informatics. Communications.” (Samara city, quarter 4 of 2005);
- Participation in inter-regional exhibition “City of XXI century” (Saratov city, quarter 2 of 2005);

- The program of arrangements was prepared to provide for orientation to customer – “Facing the customer 2005” (Ulyanovsk city, during the year);
- Participation in subject exhibitions (all the branches during the year);
- Special TV coverage “Learn more about communication” (the Republic of Chuvashiya, quarter 2 of 2005);
- Promotion action within the exhibition “Regions – cooperation without borders” (the Republic of Chuvashiya, quarter 2 of 2005).

In addition to participation in exhibitions aimed at loyalty enhancement during 2005 OJSC “VolgaTelecom” branches carried out:

1. Advertising campaigns to promote OJSC “VolgaTelecom” services:

- Local communication;
- DLD & ILD;
- Access to the Internet;
- Cable TV;
- Mobile communication (the Republic of Mariy El, Samara oblast);
- Inquiry and communications services.

2. Regional advertising campaigns to promote the services of Internet access – “Internet for all”, “High rate Internet access”, “Internet-saloons”.

The objective:

- Increase in the number of Internet users;
- Internet revenues growth;

3. Presentations:

- Presentation of opening of Settlement-service centers;
- Presentation of commissioning of digital switches in the regions;
- Presentation of new kinds of communication services;
- Ceremonial distribution of diplomas of OJSC “VolgaTelecom” VIP-customer;
- Recognition of the n-th subscriber.

4. Holding of special workshops;

5. Carrying out of marketing research in the Company’s branches to study the demand for communication services provided by the Company’s branches and to evaluate the quality of provided services.

6. Sponsor assistance to sports events and youth entertainments.

7. Arrangements aimed to improve the efficiency of work with corporate customers and to draw new VIP-customers:

One of the priority trends in OJSC “VolgaTelecom” activity is to upbuild the system of customers servicing and in the first place of large corporate sector.

End-to-end servicing and individual approach will become major trends of further improvement of quality of work with the Company’s corporate customers. The so-called “integrated packages of services” – package offers for most profitable and perspective services are currently developed for these segments.

The following was done as regards the development of relations and enhancement of loyalty of existing VIP-customers:

- Information collection is completed and the business file for each VIP-customer is filled in for further automation of VIP-customers database and implementation of CRM elements into the process of servicing. In 2005 within a pilot project “VIP-customer” program was designed and put into operation in Samara city, this program allows to automate the database and to include the information from business files into the program. It is planned to introduce the program in other regions and to centralize it in 2006.

- Heads of organizations – OJSC “VolgaTelecom” VIP-customers – were congratulated on public holidays and presented souvenirs with the Company’s logo.
- Presentations, exhibitions, conferences were held in the regions for VIP-customers.
- Activities to provide communication services to government companies and organizations; to state authority bodies, to educational institutions: activities for creating xDSL-based corporate network, PBX connection and provision of access to OJSC “VolgaTelecom” network resources at local level.

2.11. On work with the Company’s personnel.

The Company constantly pays attention to the issues of developing corporate culture.

Last year in Mariy El, Nizhny Novgorod, Orenburg, Penza and Chuvashiya Republic branches professional skills contests were held with awarding the title “The best professional” between wire-men, cable splicers, operators and other professions. In Udmurtiya Republic branch the safety arrangements and precautions contest was held. The winners got cash bonuses and gifts. In the branch of Chuvashiya Republic based on the results of 2005 26 best employees were registered in the Book of Honors.

In connection with celebration of the 60-th anniversary of V-Day the Company held arrangements dedicated to this event. In all the branches Combat Glory stands were arranged, red carpet welcomes were held with the veterans of the Great Patriotic War and workers of rear area, they were presented flowers and gifts. 764 participants of the Great Patriotic War and 2447 workers of rear area were congratulated during this celebration. 7910,6 thousand rubles were spent for this activity, including 6 453,7 thousand rubles to pay pecuniary aid to the veterans.

In the Company’s branches the administration jointly with the trade union carried out the activities dedicated to the Day of Radio – holiday of communication industry workers, to the Day of Old People, the veterans of communication are invited to all these events. The branch in Ulyanovsk constantly issues corporate newspaper “Svyazist” and the branch in Saratov issues “Interface” newspaper.

Much attention in the Company is paid to sport development. Actually in all the branches there were held the contests in football, volley-ball, tennis, skiing, sport festivals “Father, mother, I – sport family” for the employees and members of their families. In Orenburg, Saratov branches and in the branch in the Republic of Chuvashiya summer and winter Olympics were held.

In September 2005 OJSC “VolgaTelecom” Cup in mini-football was held. After the contest the picked team was formed which took part in mini-football tournament dedicated to the 10-th anniversary of OJSC “Svyazinvest” and was the 6-th between 14 teams of the companies comprising “Svyazinvest” holding.

All in all in 2005 14 075 thousand rubles were spent for corporate events.

In 2005 the issue of corporate newspaper “VolgaTelecom is on line” was going on. The issue is published on monthly basis of the run of 2000 copies. The newspaper regularly publishes major news, corporate events, articles and interview on the most acute issues, and also the information about the branches’ activity. The issue is distributed in the Company’s branches and is also available at the Company’s site in the Internet at: <http://www.vt.ru.?id=1545>. The newspaper contributes to formation of corporate culture, is the means of exchange of opinions on the issues of the day, information site for specialists and executives of the Company.

2.12. Safety arrangements and precautions of the Company’s employees.

Provision of occupational safety is one of the most complicated social-labor problems and its solution is one of major trends of OJSC “VolgaTelecom” activity.

Safety arrangements and precautions are carried out in accordance with Federal Law 181-Ф3 “On fundamentals of safety arrangements and precautions in Russian Federation” of July 17,

1999 and Provision on organization of safety arrangements and precautions in “Communication” industry approved by Russia’s Ministry of communication order № 187 of October 26, 2000.

The Company established the service of safety arrangements and precautions, its sub-divisions are available in all the branches.

The system of management of activities of safety arrangements and precautions covering all the aspects ensuring the organization of healthy and occupational safety is effective in the Company. The system includes the following:

- Appraisal of work place as regards working conditions;
- Sanitary analysis of work places;
- Periodical and target medical examinations, planning of administrative and technical measures of safety arrangements and precautions;
- Adoption of labor contract and agreements of safety arrangements and precautions with trade union organizations.

In accordance with Federal Law № 116-ФЗ “On industrial safety of hazardous facilities” approved on July 21, 1997 the “Provision on industrial compliance control of requirements of industrial safety at hazardous facilities when operating lifting cranes, elevators, car lifts, gas equipment” was introduced in the branches. The Provision sets forth the procedure of organizing industrial control in the branches, defines responsible employees for performance of industrial control and their duties.

Safety arrangements and precautions service carries out preventive measures of occupational traumatism, occupational diseases caused by production factors and also the measures of improving working conditions. All the employees are preliminarily medically examined before beginning the work and are periodically medically examined in accordance with RF Ministry of Public Health order № 90 of 14.03.1996. The programs of industrial compliance control of public health regulations are worked out and approved in the branches’ sub-divisions.

Certification of work places is an essential element of improving labor activity of workers and has explicit trend for prevention of occupational diseases and reduction of traumatism. The work places in the Company’s branches are certified in accordance with Rule № 12 of March 14, 1997 of Russia’s Ministry of Labor.

In OJSC “VolgaTelecom” the work places certification as regards working conditions is completed in 7 of 11 branches.

As of January 1, 2006 out of 27780 work places subject to certification 25622 were certified or 92,2% of the total number of work places.

In the Company’s branches there were held 140 expert examinations of quality of holding the certification of work places as regards working conditions.

130 specialists in certification of work places as regards working conditions and 15 experts in certification of safety arrangements and precautions were trained.

Certification of safety arrangements and precautions is completed in full Ulyanovsk branch and in 5 structural sub-divisions of Nizhniy Novgorod branch.

Safety arrangements and precautions implemented in sub-divisions are materially affecting the improvement of labor safety level and working conditions of the workers. In 2005 for safety arrangements and precautions the entire Company spent more than 141 million rubles or 0,92% of the amount of operational expenses which corresponds to the requirements of Federal law № 181 of July 17, 1999.

The arrangements carried out in the Company’s sub-divisions allowed to improve efficiency indexes of safety arrangements and precautions and to reduce total occupational traumatism.

Total number of work accidents was 29, which by 18 less than in 2004. The number of injured persons also reduced. In 2004 there were 50 persons and in 2005 – 34 persons or by 32 % less.

III. THE COMPANY'S POSITION IN THE INDUSTRY

The Volga Federal district (VFD) includes 14 subjects of Russian Federation – 6 republics: Bashkortostan, Mariy El, Mordoviya, Tatarstan, Udmurtiya, Chuvashiya and 7 oblasts: Kirov, Nizhny Novgorod, Orenburg, Penza, Samara, Saratov, Ulyanovsk and Perm area (the region comprises Perm oblast and Komi-Permyak Autonomous Area).

VFD territory is 1 038 thousand square km, which is equal to 7,27% of Russian Federation territory. 32 019 thousand people are living here or 22,1% of the total population of Russia, this is the second outman (after Central Federal district) and the most multi-national federal district (about 140 various nations, nationalities and ethnic groups are living here).

The majority of VDF population lives in towns and cities - 70,8 %, which is higher than All-Russia's figure. Five largest Russian cities with population over 1 million people are located at VDF territory: Nizhny Novgorod, Samara, Kazan, Ufa and Perm.

The share of industrial production of the Volga Federal district in Russia's economy is 23,9% - this is the highest index in the country. The leaders of the industry are machinery-producing industry and fuel and energy complex. However, agricultural sector, chemical industry and light industry make a substantial input into the volume of industrial production of the Volga Federal district. Electric-power supply industry is an important industry of market specialization of the Volga region. Large hydroelectric power stations on the Volga and Kama rivers are located in the district; nuclear power is represented by Balakovo's A-plant – the largest in the region.

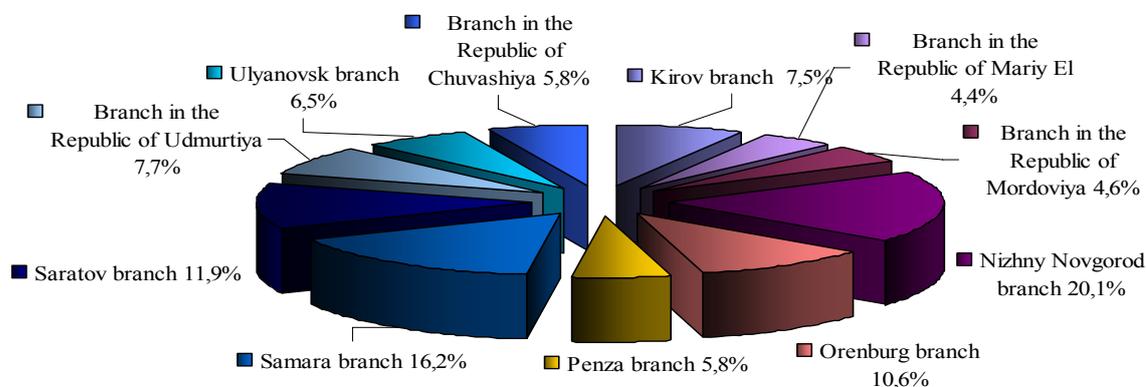
The volume of investments into the economy of the Volga Federal district is 15,3% of all capital assets of Russia.

OJSC "VolgaTelecom" branches are located in 11 regions of the district - in Republics of: Mariy El, Mordoviya, Udmurtiya, and Chuvashiya and also in Kirov, Nizhny Novgorod, Orenburg, Penza, Saratov, Samara and Ulyanovsk oblasts.

In 2005 the actual volumes of telecom market serviced by OJSC "VolgaTelecom" amounted to about 46,6 billion rubles. The major portion of the Company's revenues falls on Nizhny Novgorod (18% of the Company's revenues), Samara (15% of the Company's revenues) and Saratov regions (11% of the Company's revenues).

Regional distribution of OJSC "VolgaTelecom" revenues in 2005

Chart 3

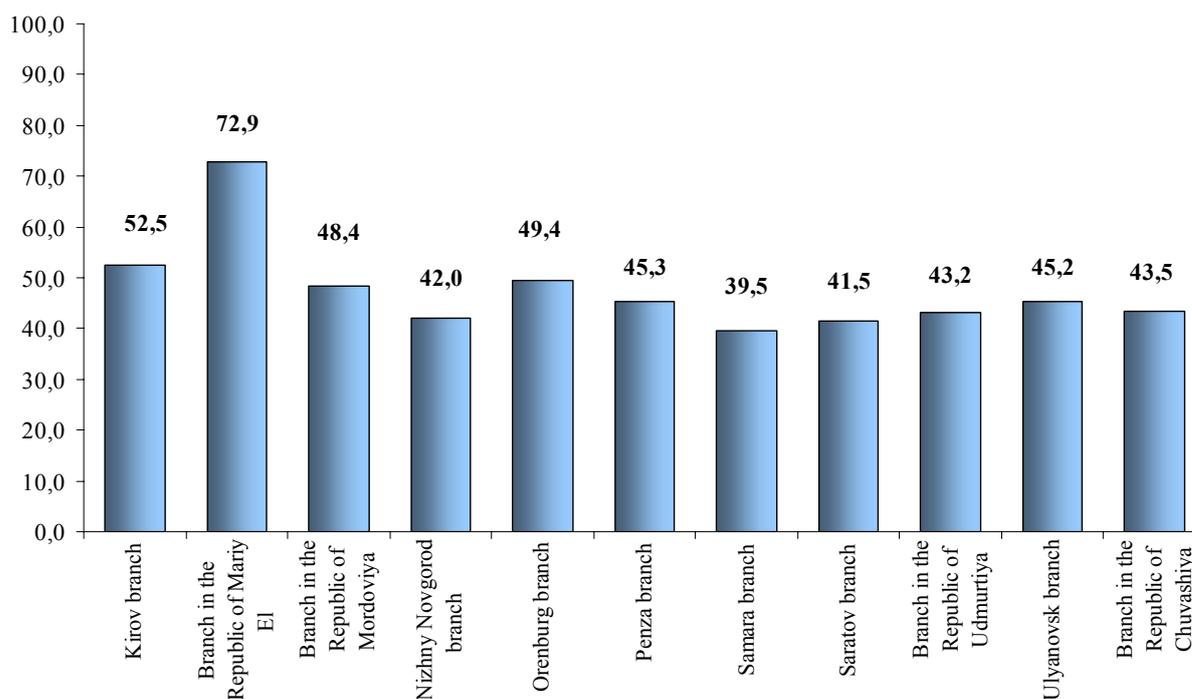


As of 01.01.2006 OJSC “VolgaTelecom” share is 44,5% (including cellular business) of all revenues of telecommunications sector (39,5% in 2004).

The percentage of the Company’s branches at the market of telecom services of the regions are presented in the Chart below:

Share of branches at the region’s market (cellular business including), %

Chart 4



The shares of the company’s branches at the regions’ telecom services market are provided below.

Table 2

OJSC “VolgaTelecom” branch	Volume of regional market, million rubles	Communication services revenues, million rubles	The branch share at the region’s market, %	Share of regional market in revenues of telecom market of the Volga region, %
Kirov branch	2 980	1 564	52,5	6,4
Branch in the Republic of Mariy El	1 260	918	72,9	2,7
Branch in the Republic of Mordoviya	1 980	958	48,4	4,2
Nizhny Novgorod branch	9 385	3 942	42,0	20,1
Orenburg branch	4 470	2 209	49,4	9,6
Penza branch	2 680	1 213	45,3	5,7
Samara branch	8 500	3 360	39,5	18,2
Saratov branch	5 950	2 466	41,5	12,7
Branch in the Republic of Udmurtiya	3 715	1 606	43,2	8,0
Ulyanovsk branch	3 000	1 356	45,2	6,4
Branch in the Republic of Chuvashiya	2 750	1 196	43,5	5,9
Total for the Company	46 670	20 788	44,5	100,0

The Company's share in revenues is 75,5% (exclusive of cellular business). Moreover, this share in local telephone communication and in DLD revenues is 87,1 % and 94,45 % correspondingly (it was supposed to keep it at the level of at least 75 %).

In 2005 the primary trends at communication services market were:

- Achieving high density of telephonization inside the regions (in a number of regions the market is close to saturation);
- Low level of income of rural area population (rural telephone communication);
- Further growth of subscribers' base of cellular operators hereupon the reduction of demand for local and DLD communication services;
- Alternative operators take away DLD traffic;
- New services market development (Intelligent Network, Call Service Centers);
- High rates of growth of Internet services development (ADSL).

In 2005 the determining factors that affected the formation of the Company's communication services revenues were:

- Network development and expansion of range of communication services provided with application of new technologies;
- Change of tariffs for communication services;
- Increase in volume of services rendered to connected operators;
- Development of competition at the markets of intra-zonal and local communication, reduction of demand for the Company's services and correspondingly the reduction of the Company's share at these markets in a number of regions.

Local telephone communication remains the major source of communication services revenues; its share in the total amount of revenues is 46,1%.

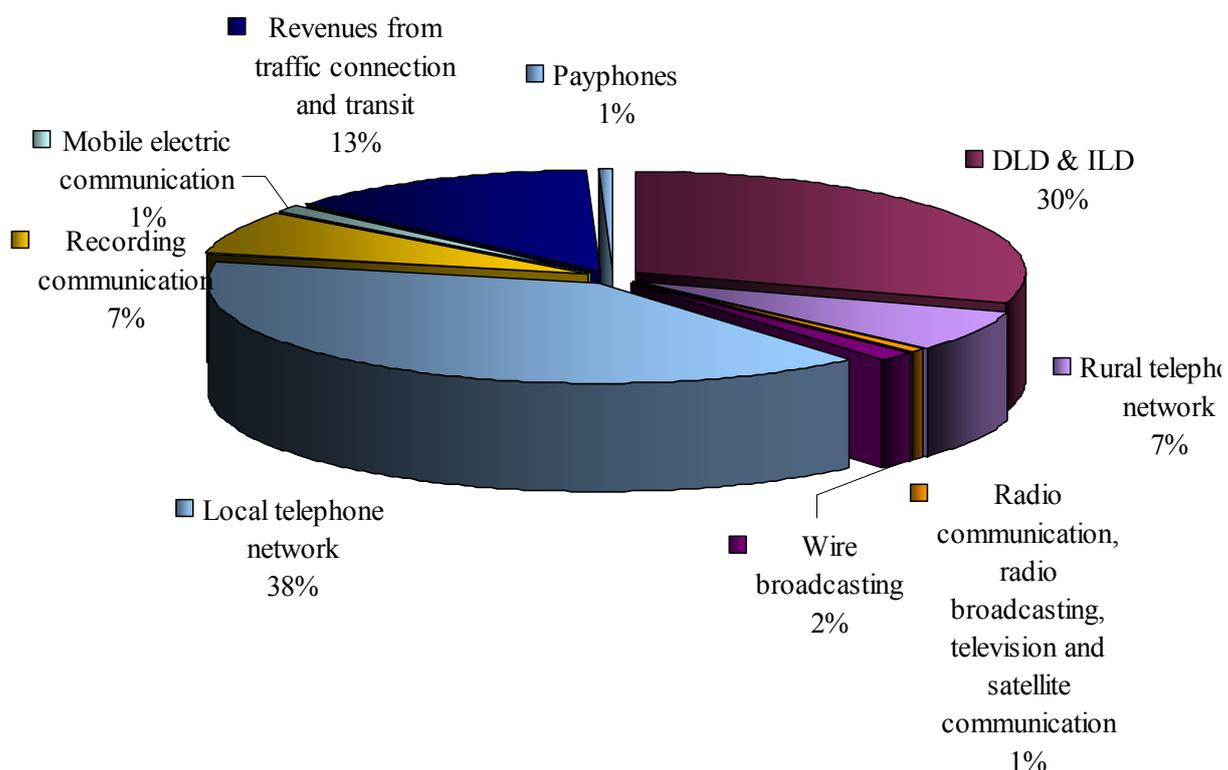
The rate of growth of communication services revenues in 2005 made up 115,2% vs. the relevant period of 2004.

The revenues grew higher than the average level for the Company vs. 2004 in the branch of the Republic of Udmurtiya – 122,5%, in Orenburg branch – 120,6%, in Kirov branch – 120,3% and in the branch of the Republic of Chuvashiya – 116,9%. In all of the above mentioned branches, but for the branch in the Republic of Udmurtiya, the outstripping gain of communication services revenues was ensured due to conducted tariff policy (in these branches the average revenue rate at city's network of telephone communication grew at the average by 19-21%). In the branch of the Republic of Udmurtiya the achieved rate of revenues growth was affected by the increase in tariffs for local communication, connection of alternative operators and connection of affiliate company LLC "Izhcom".

It should be noted that depending on the condition of regional communication market (its maturity, competitive situation, the activity of the branch itself) the shares of branches in regional revenues are different. So, if in the Republic of Mariy El there are actually no competitors, then the share of revenues of the branch is fairly high – 72,9% (cellular business inclusive).

Revenues from communication services, traffic connection and transit in 2005.

Chart 5



Based on the results of the year the revenues from providing the services with application of new technologies made up 7,3% of the total amount of communication services revenues for 2005. The growth rate was 160,9%.

Performance of OJSC “VolgaTelecom” market shares changes in major trends of activity is provided below.

Performance of market shares changes by basic indexes

Table 3

Services	Market share in 2004, %	Market share in 2005, %
Local communication	86,58	87,10
DLD	94,96	94,69
ILD	92,45	92,85
Internet services over dedicated channel	64,76	74,6
Internet services over dial-up channel	70,03	73,78
Cable TV services	12,34	13,43
Voice information transmit services (IP-telephony)	9,60	29,25

IV. PRIORITIES IN THE COMPANY'S ACTIVITY

4.1. Construction and modernization of backbone, intrazonal and traffic networks.

Major objectives for 2006.

During the planning and construction, development and modernization of networks the integrated approach is used which allows to ensure the reduction of operational expenses for communication networks maintenance and provides the capability to provide end-to-end services on the entire territory of Russia, to use system solutions and to orient to the solutions of leading equipment manufacturers as regards its reliability, scalability, manageability and flexibility.

1. Intrazonal network.

Backbone primary network and intrazonal primary networks will be developed with the use of fiber-optic cables with features required for the construction of high rate traffic network with the number of optical fibers on the basic direction not less than 20 with due account for availability in it of fibers with biasing nonzero dispersion (ITU-T G.655 recommendation) designed for application of systems providing for WDM spectral multiplexing.

In 2006 it is planned to construct 2 707 km of intrazonal communication lines, including 2 500 km of fiber optic intrazonal communication lines and 207 km of microwave radio communication lines. Modernization of existing intrazonal primary networks will allow to increase their capacity by 146,8 thousand channel-km.

Taking into account the need in expansion of network carrying capacity and also the need of modernization of analog equipment at zonal networks the Company will continue the modernization and expansion of existing networks for forecasted channels loading providing for maximization of profit from invested resources.

2. Local communication.

During the year it is planned to commission 404,5 thousand numbers at city's telephone networks and 52,3 thousand numbers at rural telephone networks. Out of them 272,5 thousand numbers will replace step-by-step decimal and crossbar switching systems. Total installed capacity of telephone network will make up 5 112,5 thousand numbers, it is planned to bring digitalization level up to 68,2 %. The gain of basic phone sets is planned to the number of 160330 units, including at CTN - 131840 units, and at RTN - 24790 units. For the purposes of reducing operational expenses it is stipulated to apply not more than two types of equipment at PSTNs of the Company's branches.

Chiefly the equipment with NGN elements (including Softswitch technology) will be used for communication networks development. For reconstruction of telephone networks in districts centers it is planned to apply switching systems incorporating the equipment of subscriber's wideband access. The construction of interoffice communication is planned to realize with primary application of fiber-optic cable.

Further implementation of distributed call service center (CSC) is planned as per recommendations worked out in R-effort "Standard requirements and recommendations for creation of Call Service Centers by communication Companies" and individual "System project/Working project of CSCs creation in the Company".

The development and realization of programs of modernization of existing network infrastructure for expansion of range of provided communication services and improvement of their quality will be continued:

- Participation in the tender for providing universal services;
- Telephonization of settlements in rural areas;
- Providing communication services for government needs, access to emergency services, including to "112" service.

At wire broadcasting networks it is planned to continue the arrangements of change-over to off-air reception of programs and reconstruction of networks of republican and oblasts' centers of wire broadcasting. In accordance with the plans of 2006 the following is scheduled at wire broadcasting networks:

- Closing of 166 unprofitable wire broadcasting centers;
- Change-over of 741 settlements from wire broadcasting to on-air broadcasting;
- Liquidation of 7597 km of wire broadcasting lines and 9131 km of lines combined with power transmission lines;
- Replacement of 25 power-consuming amplifiers and 20 MIIB vacuum-tube transmitters;
- Installation of 20 sets of dropping equipment "Otzvuk".

3. Preparation of PSTNs for compliance with regulations requirements.

In 2006 as per the Company's investment plan the basic arrangements for realization of

new regulation requirements will be completed. Major efforts will be focused on the following:

- Realization of the user's right to choose DLD & ILD operator;
- Provision of capability of record maintenance of traffic from/to the networks of other communication operators;
- Provision of capability of time charging for local phone calls.

4.2. Trends of activity of introduction of new technologies and expansion of provided services range.

1. Internet and data transfer services development.

The Company believes this trend of development to be a major source of essential gain of revenues with maximum profit making from the investments which is confirmed by the tendencies of the development of market segment where the Company is present. Including:

- Internet wideband access services;
- Internet dial-up access services;
- Data transfer network services, including the services of organizing customers' corporate networks.

Within this trend the Company is developing the services of dial-up and dedicated line access to Internet, data transfer services and in particular, construction of customers' corporate networks.

1.1. TV broadcasting services.

- Cable TV networks development;
- Implementation of digital TV services.

1.2. Intelligent network services.

1.3. Telephone communication services based on packet switching technology.

2. Mobile communication.

The basic principle of OJSC "VolgaTelecom" mobile communication development is convergence of fixed line and mobile communication with the purpose of strengthening competitive advantages.

In 2006 it is planned to continue the activities of cellular business development in accordance with the approved strategy stipulating establishment of single cellular operator on the basis of CJSC "Nizhny Novgorod cellular communication" within the framework of OJSC "VolgaTelecom" affiliate business.

OJSC "VolgaTelecom" is planning to buy out up to 100% cellular business assets from "Reserve Invest (CYPRUS) Limited", and namely the purchase of equity stake of CJSC "Saratov-Mobile", CJSC "Chuvashiya-Mobile" and CJSC "Penza-Mobile", and also the purchase of equity stakes of OJSC "TATINCOM-T" from OJSC "Uralsvyazinform", OJSC "Tatarstan International communications Limited" from the Committee for municipal property management with the head of Administration of Kazan city before 01.09.2006.

And also negotiations about the repurchase of equity stakes of CJSC "Ulyanovsk-GSM", CJSC "Orenburg-GSM" from CJSC "SMARTS", the repurchase of the companies' equity stakes before 01.09.2006.

It is planned to complete the process of OJSC "VolgaTelecom" cellular business reorganization by way of affiliation of cellular operators' companies to CJSC "NCC" before February 2007.

Upon completion of cellular companies' affiliation the companies "Aline GSM" (branch in the Republic of Mariy El) and "Strizh" (Samara branch) will be reorganized.

In 2006 it is planned to increase the total number of cellular subscribers to 2 606 thousand, and the growth of proceeds to 29 % vs. 2005. Herewith, it is planned to maintain the market share at the level of 18 % in the regions where cellular communication services are provided.

3. Implementation and modernization of IT solutions.

The main trend of activities in IT area is automation of technological and managerial processes of the enterprise, centralization of information resources in order to enhance the transparency of the company's management, unification of business processes, reduction of costs for the development and operation of information systems and optimization of information flows. Within this trend OJSC "VolgaTelecom" implements integrated management system based on ORACLE E-BUSINESS SUITE (ERP program) software and common billing system of "Amdocs" company (Billing Transformation Program). Single "Data Processing Center" was established, it accumulates all financial-economic information of the Company. First modules of ORACLE E-BUSINESS SUITE system – personnel management and fixed assets management – are implemented. Within Billing Transformation Program there was developed draft design of single billing solution and detailed design of localized expansion level on the basis of which "Amdocs" company is creating a master system. Introduction of these systems is the next stage of the company's corporate restructuring aimed at optimization of business processes through creation of single information resource.

4.3. The Company's tariff policy.

The basic objective of the Company's tariff policy is to maintain salability of OJSC "VolgaTelecom" communication services, to expand the subscribers' base and to increase its market share. In 2005 the Company conducted flexible tariff policy as regards non-regulated tariffs for communication services. The activities of making current price-lists of the Company's branches uniform were continued.

Adoption in 2005 by RF Government of a number of framework regulatory documents in elaboration of RF Law "On communication" will facilitate the expansion of our capabilities for the improvement of tariff policy.

Joint activity of the Company and of Federal Service for Tariffs resulted in the increase of tariffs for local communication services; at the average the tariffs were increased by 19,7% and became effective since October 1, 2005, simultaneously the tariffs for DLD and intrazonal telephone communication services were reduced by 7%.

4.4. Other activity trends recognized as strategically important for the Company's development in marketing strategy, in the sphere of services, customer's segments, and also the priorities in the area of regional development.

The Company's prospects at telecom market:

1. The Company's major strategic objective – to hold leading position at communication services market of the Volga region. The Company's total market share is more than 75% by revenues (without taking into account cellular operators) and 44,5% by revenues cellular operators being taken into account.

2. The major trends and priorities of OJSC "VolgaTelecom" development for 2006 are defined in the Company's long-term programs. The Company's approved marketing strategy defined key segments of the market and strategic regions of its development.

The strategy of modern services development approved the Company's objectives for 2006 in highly remunerative market segments having defined key parameters by natural and value indicators.

The planning of OJSC "VolgaTelecom" revenues for 2006 was made with taking into account structural shifts which telecom market is expecting since 01.01.2006 and which are caused by the change of existing regulatory framework governing the activity of Russian communication operators as regards the transfer of right to provide DLD and ILD services to DLD and ILD operators, and also the change of interrelations of operators of long-distance, intrazonal and local networks.

These changes are reflected in the structure of revenues that OJSC "VolgaTelecom" is planning for 2006.

In this connection, the correlation of revenues performance of industries with different level of profitability in the total structure of OJSC “VolgaTelecom” revenues changed materially, which immediately affected the profitability of the entire Company.

Behavior of revenues growth (drop) in major industries.

Table 4

	Behavior of revenues growth 2006/2005 (%)
Local communication	109%
DLD and ILD*	35%
Internet and data transfer networks	139%
Wireless and cellular communication	118%
Connected operators	125%
Other	102%

* In 2006 by DLD and ILD services are meant the services of intrazonal communication.

The change of revenues behavior in a number of major industries resulted in the change of share of these industries in the structure of total revenues, having reduced the share of DLD services by 18 percentage points.

Table 5

	2005	2006
Local communication	46%	56%
DLD and ILD *	30%	12%*
Internet and data transfer networks	6%	9%
Wireless and cellular communication	1%	2%
Connected operators	13%	18%
Other	3%	4%

* In 2006 by DLD and ILD services are meant the services of intrazonal communication.

The drop of DLD and ILD services revenues, having weighted average profitability of 45%, resulted in the drop of the Company’s total profitability by 1,8 percentage points.

The growth of local communication share is explained by positive behavior of its development and also by essential drop of revenues from DLD and ILD services and as consequence by reduction of total amount of revenues.

It is expected that in 2006 the share of new services in the total structure of the Company’s revenues will grow to 9,2% (vs. 4,6% in 2004 and 7,3% in 2005), and by 2008 it will increase to 14,7%.

V. THE COMPANY’S EXPECTED FUTURE DEVELOPMENT

Priorities in services area.

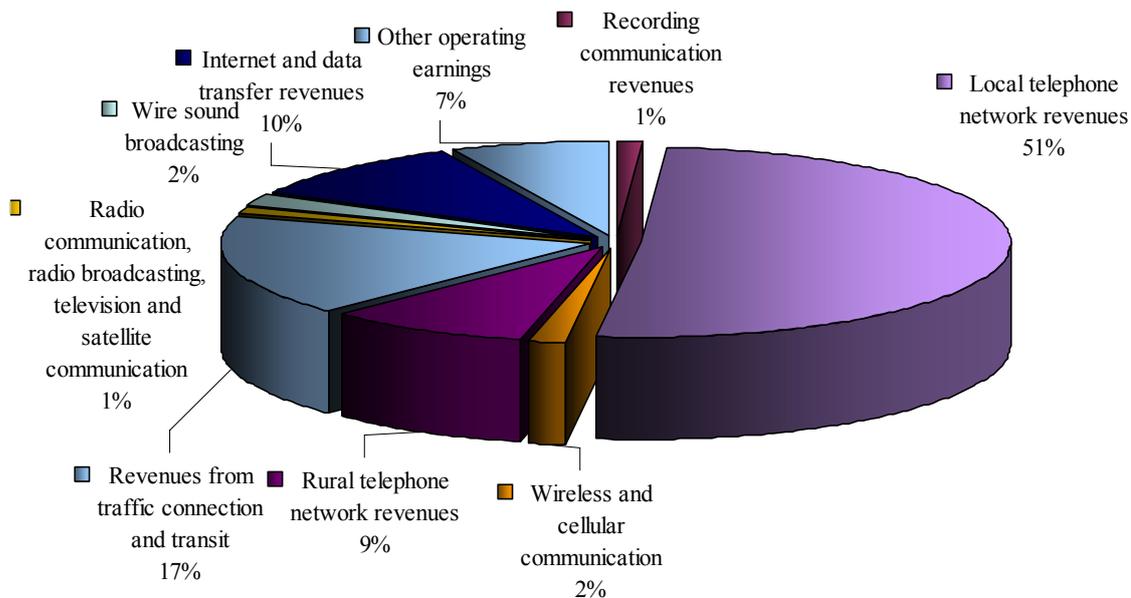
In services area – priority development of value-added services (Internet access, VPN, intelligent networks services, Call-centers, cable TV) and the increase of their share in the total receipts.

In 2005 the Company started to realize the project of the network modernization in accordance with NGN technological concept assuming the network reconstruction, including with the purpose of expanding the list of services. Further development of the network on the basis of NGN will considerably expand the range of services for the Company’s subscribers: intelligent network, call-centers, cable TV. Literate NGN networking allows for reducing of prime cost of services provision and hence will positively affect the customer’s tariffs.

On the ground of the forecast of telecom sector development made on the basis of the results of conducted marketing researches the Company's revenues structure is expected to change by the end of year 2006.

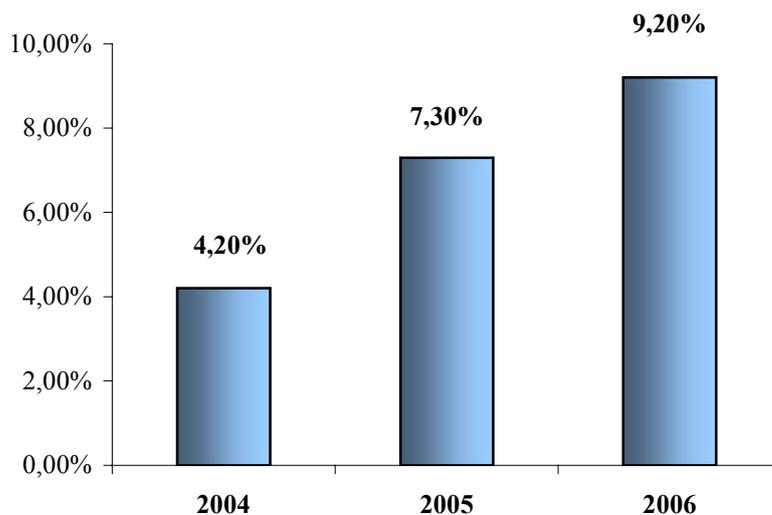
Budgeted structure of OJSC "VolgaTelecom" revenues in 2006.

Chart 6



It is expected that in 2006 the share of new services revenues in the Company's total revenues will grow to 9,2%.

Chart 7



Priorities in customer's segments area.

Currently one of the priority trends of OJSC "VolgaTelecom" activity is to lineup the system of customers' servicing and in the first place - the customers of large corporate sector.

Improvement of competitive struggle, further activation of operations by cellular and alternative operators are prerequisites for losing by a number of branches of their positions in business sector in 2006 and as a result the reduction of share in their revenues and the revenues of the Company upon the whole.

However, the realization of programs aimed to promotion of services rendered by the Company and in particular, the Program of providing modern communication services to general public and to organizations for year 2006 will allow for increasing the share of new services revenues in the company's revenues from 7,3% in 2005 to 9,2% in 2006.

The plans for 2006 stipulate the development of a group of actions aimed at improving the quality of customer servicing, raising competitive capacity and retaining the existing customers. This group of actions includes the revision of existing criteria of corporativity. It is planned to introduce uniform criteria of assignment of VIP status for strategic customers in the entire Company.

Priorities in regional development area.

Marketing strategy defines three key regions for OJSC "VolgaTelecom" – Nizhny Novgorod, Samara and Saratov oblasts. These regions are the most attractive for the competitors and it is exactly there where OJSC "VolgaTelecom" fights for its market positions in the first place. The economy of the key regions will be outstripping the growth rate; their attractiveness is confirmed by the fact that above all it is exactly here where the alternative operators are actively investing. The return on investments in these regions is higher than in other branches of the Company.

Along with a large number of regional alternative operators large All-Russia operators are present at the markets of these oblasts. It is these companies conducting aggressive marketing policy, developing modern telecom technologies, using flexible tariff policy (with the capability of individual approach to each customer) and large number of sales personnel, clear progressive system of personnel motivation that pose the main threat.

New tariff plans, loyalty programs for high-yielding subscribers, special integrated offers for separate segments are being developed and introduced to stimulate the demand. Special activities are elaborated to improve the competitiveness of foreground regional branches that will allow for strengthening the Company's positions in all 11 regions of the cover area.

It should be noted that despite dynamic development of alternative operators OJSC "VolgaTelecom" has serious competitive advantages:

- Availability of developed infrastructure;
- Wide network of communication offices;
- Stable financial status allowing for investing into new high-tech communication services.

In order to efficiently administer its competitive advantages and to ensure its presence in all profitable segments of services market OJSC "VolgaTelecom" consistently realizes aggressive marketing strategy.

Investment policy.

The volume of investments allocated by the Company for realization of the development program for 2006 amounts to 5 670 million rubles. In the total volume of investments the expenses for equipment acquisition amount to 65 %, construction and installation works – 30 %.

Table 6

Investments categories:	Share in investments volume, %
Traditional telephony	27,9
New services	32,4

Channels for services provision	1,3
Repair and construction of buildings and facilities	2,0
Investments into IT	8,9
Data transfer network and infrastructure	20,1
Other infrastructure	6,4
Special	1,0

The analysis of investment plan efficiency.

The quantity of projects of investment plan, total - 856 projects.

Table 7

Investments payback period	Years
Plan's investments average payback period	4,2
• Traditional telephony	4,1
• New services	4,1
• Data transfer network and the objects of communication infrastructure	4,5

Table 8

	%
Share of investments volume into financial payoff projects	76,5
Share of high financial payoff projects (payback period to 7 years, IRR > = 20%)	57,9
Share of investment volume into the projects with intangible payback	22,6
Share of investment volume into the projects with intangible payback and into the projects with negative payback (payback period more than 9 years)	23,5
Share of investment volume into social and special projects	1

It is planned to commission production capacities in the amount of 5 880 million rubles.

The commissioning of the Company's production capacities is provided in the table below.

Table 9

Indicator	Measure unit	Plan for 2006	Including quarter-yearly			
			1	2	3	4
Commissioning of numbering capacity of fixed-line communication	Numbers	404 462	76376	78 754	122278	127054
<i>Including for replacement (of the total commissioning)</i>		272 526	58339	46214	79651	88322
<i>Rural communication network including</i>	<i>Numbers</i>	<i>52 274</i>	<i>18334</i>	<i>7642</i>	<i>13676</i>	<i>12622</i>
Including the numbers for the replacement at rural communication network	Numbers	34 594	12032	3124	9538	9900
<i>Including at city's telephone network</i>	<i>Numbers</i>	<i>352 188</i>	<i>58042</i>	<i>71 112</i>	<i>108602</i>	<i>114432</i>
Including the numbers for the replacement at city's telephone network	Numbers	237 932	46307	43090	70113	78422
<i>Gain of basic phone sets</i>	Numbers	<i>154 847</i>	<i>29 277</i>	<i>38 194</i>	<i>43 264</i>	<i>44 112</i>
Commissioning of trunk line exchanges	Channels	10680	0	0	0	10680
Backbone trunks and intrazonal transmission lines, total	Km	2707	100	265	408	1934

Indicator	Measure unit	Plan for 2006	Including quarter-yearly			
			1	2	3	4
<i>Out of them - intrazonal transmission lines</i>	<i>Km</i>	2707	100	265	408	1934
Including:	Km	2500	100	265	279	1856
• Cable transmission lines	Km	207	0	0	129	78
• commissioning of trunk line exchanges, of nodes of automatic switching, of zonal transit nodes	Channels	10680	0	0	0	10680

Development of electric communication network.

As of 01.01.2007 the installed capacity of local telephone network due to realization of the Company's investment plan will be 5112,5 thousand numbers.

Table 10

Telephone exchange type	Thousand numbers	% of total installed capacity
Crossbar automatic telephone exchanges	1 410,4	27,6%
Quasi-electronic automatic telephone exchanges	178,8	3,5%
Electronic automatic telephone exchanges	3 485,6	68,2%
Step-by-step decimal automatic telephone exchanges	37,5	0,8 %
Total	5 112,5	100,0%

Automatic trunk line exchanges (ATLX).

Realization of the investment plan for 2006 will allow for increasing the capacity of automatic trunk line exchanges (ATLX) to meet the requirements of intrazonal and DLD communication when developing local PSTNs.

ATLX total capacity will grow by 3,0 thousand channels and amount to 91,0 thousand channels. Herewith, the capacity of all digital ATLXs will be 100% of the total capacity.

Retirement from service

In 2006 it is scheduled to retire from service 1211,2 km of transmission lines, including:

- cable transmission lines - 997,9 km;
- overhead transmission lines - 54,3 km;
- microwave radio transmission lines - 151 km;

In 2006 it is scheduled to retire from service 189.2 thousand numbers of analog exchanges, out of them:

- 45.2 thousand numbers of step-by-step decimal automatic telephone exchanges (it will make out 54.7 % of total capacity of step-by-step decimal automatic telephone exchanges)
- 96.3 thousand numbers of crossbar automatic telephone exchanges (it will make out 6,4 % of total capacity of crossbar automatic telephone exchanges).

Major investment projects.

The Company's investment plan includes the projects related to carrying-out of legislation requirements that became effective since January 1, 2006:

- Modernization of local networks to provide for the subscribers' (users') capability of choosing long-distance operator;
- Re-equipping the exchanges with calls' time charging function;
- Re-equipping ATLX with the function of DLD and ILD operator choosing;
- Creation of technical architecture of ERP-system;
- Creation of technical architecture of billing transformation program;
- Development/modernization of local-computer networks;
- Expansion of DSL access area;

- Development of cover area of cable TV services provision;
- Call Service Centers development;
- Provision of organization of access to single number of emergency services “112”;
- Change-over of communication networks to perspective numbering plan.

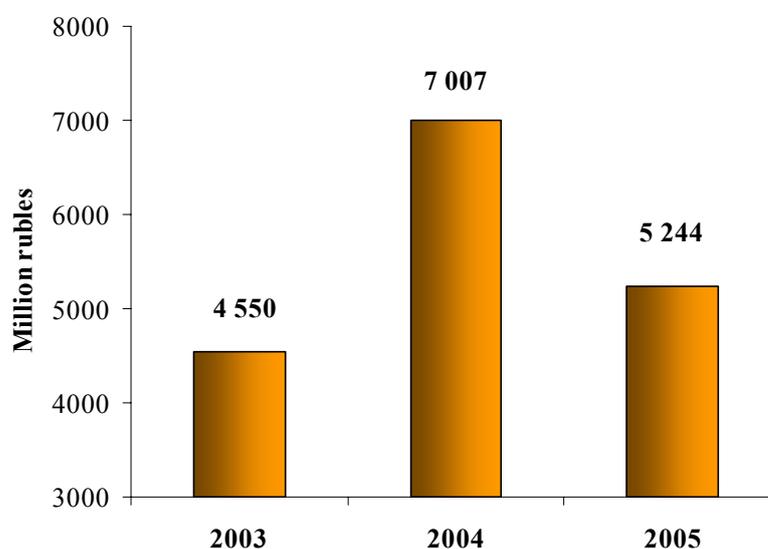
VI. THE RESULTS OF THE COMPANY'S DEVELOPMENT IN PRIORITY TRENDS

Capital construction and investment activity.

5 208,721 million rubles of capital investments were spent during 2005. Fixed assets worth of 35,529 million rubles were acquired. Total investments into fixed-capital assets amounted to 5 244,250 million rubles.

Volume of investments into fixed-capital assets.

Chart 8



Out of the investments into fixed-capital assets 5 177,78 million rubles or 99,4% were allocated to communication objects, and 30,941 million rubles or 0,6% to other activities.

In 2005 the volume of construction and installation works amounted to 2 071,3 million rubles. The equipment worth of 2 836,7 million rubles was delivered. Fixed assets worth of 5 527 million rubles were commissioned.

The major share in the investment program is still the investments into modernization and expansion of objects of traditional telephony. In 2005 the volume of investments into this market segment amounted to 2 803,3 million rubles or 53,5 % of the total investments. Large share of investments into traditional telephony is explained by the need of modernization of the existing network to expand the range of provided services and to improve the quality of their provision.

711,6 million rubles or 13,6 % of the total investments were allocated for infrastructure development (DLD and ILD phone communication). Out of them the following amounts were allocated for:

- Construction of intrazonal transmission lines (fiber-optic and microwave radio transmission lines) - 449,7 million rubles (8,6%);
- Construction, replacement and modernization of objects of interoffice communication networks - 162,2 million rubles (3,1%);
- Expansion and reconstruction of ATLX - 80,4 million rubles (1,5%);

- Development of other infrastructure (expansion of radio broadcasting area, modernization of telegraph facilities, network signaling systems, network monitoring systems) - 19,3 million rubles.

In OJSC “VolgaTelecom” business structure there are mobile communication services which, taking into account high competition at the market, require investment development. Within the framework of 2006 investment plan realization 239,2 million rubles are allocated for mobile communication development.

In 2005 the volume of investments for implementation of new equipment and information technologies considerably exceeds the investments of year 2004.

The basic trends of the Company’s investments in 2005 into the development of new services were:

- DSL ports installation and organization of Internet dial-up access - 101,3 million rubles (1,9%);

- Construction and expansion of cable TV - 121,3 million rubles (2,3%);

- Implementation of intelligent network - 19,8 million rubles (0,4%);

- Other services – 8,4 million rubles (0,2%);

- Construction and capacity enhancement of Call Service Centers – 28,3 million rubles.

- Due to the fact that basic gain of revenues in the future the Company sees in the development of data transfer network services the volume of funds allocated into this market segment is growing year in and year out. In 2005 the investments into data transfer network development amounted to 490 million rubles (9,3%), which exceeds the same indicator of the previous year by 132 million rubles or 37 %. 280,4 million rubles were invested into the construction of data transfer networks and access nodes.

151,9 million rubles were allocated for the construction of data transfer network with composite function of multi-service (multi-media) network, out of them 102,1 million rubles were spent for realization of “Inter-regional multi-service data transfer network” project.

In 2005 the second stage of “Inter-regional multi-service corporate OJSC “VolgaTelecom” data transfer network” project was realized.

An important development trend is the construction of corporate data transfer network (inter-regional multi-service network) of OJSC “VolgaTelecom” of the total estimated cost of 261,5 million rubles. This network is subdivided into corporate and commercial segments.

The network’s corporate segment is a part of created data transfer network designed for meeting the requirements of OJSC “VolgaTelecom” to create single information space. The objectives of this trend are the following projects:

ERP system - ORACLE E-Business Suite;

Creation of corporate network of video conferencing;

System of accumulation and consolidation of information;

Implementation of uniform billing system AMDOCS (in the long term).

The basic tasks are in the area of construction of transparent and efficient information structure connecting the company’s branches into single information space that provide access to data and applications.

Within the framework of the second stage of multi-service data transfer network construction the Company’s corporate networks were additionally equipped to ensure the requirements of functionality, security and performance.

The network’s commercial segment is the remaining part of the network designed for provision of services to a wide range of users in order to obtain commercial benefit.

Thanks to the construction of “commercial segment” of multi-service data transfer network the Company will be capable to provide the following communication services:

- Internet dial-up access services;

- Wideband access services;

- Organization of Virtual Private Networks (VPN) for corporate customers having geographically distributed offices within the Volga region.

- Telephone communication with the application of packet switching technology (“packet telephony”). The future of “packet telephony” consists of convergence with NGNs. In order to ensure the capability of the Company’s branches telephone networks interfacing with the networks of DLD and ILD operators by using packet switching technology, within the framework of multi-service data transfer network project the equipment was purchased to re-equip zonal transit units of the branches by installing MVTs sets and Cisco AS5350 media-gates. Contractor design of OJSC “Giprosvyaz-St.Petersburg” also stipulates the installation of the controller of Cisco PGW-2200 media-gates in Nizhny Novgorod branch to ensure the operation of zonal transit nodes of the branches with media-gates by using signaling system OKC-7. The subscriber’s level of “packet telephony” service will be developed within NGN project. The service will be provided to the users of access over a dedicated line.

- Videoconferencing. Leading educational centers are actively introducing videoconferencing into educational process. Holding of medical videoconferences is strategically important task of practical health care. Organization of video conferences allows for medium and small businesses to reduce transport and travel expenses, cost cutout is achieved for documents transfer, inefficient phone consultations.

In 2005 within the framework of the second stage of the project realization 102,1 million rubles were invested, including the following equipment that was delivered and commissioned:

- Nodes of telephone communication by using packet switching technology (“packet telephony”) in the branches (total 12 nodes);
- The equipment of information security system for 11 branches;
- Development of regional segments of data transfer network of the branches.

Thanks to the investments of year 2005 into the development of data transfer network and Internet services the number of active users by dial-up access in OJSC “VolgaTelecom” made up 487,7 thousand/month. More than 31,8 thousand ports are used for organization of dedicated line access.

Taking into account that since 2004 the Company has been implementing centralized software products stipulating optimization of business processes and requiring the upgrading of existing technical architecture more than 7% of investments in 2005 were allocated exactly for these purposes. The total amount of investments for creation and development of technical architecture made up 394,2 million rubles.

Investments into IT amounted to 394,2 million rubles, which is more than for the similar period of 2004 by 104,8 million rubles or by 36 %.

Out of them:

- For design and acquisition of equipment for the construction of Data Processing Center 200,3 million rubles were allocated which makes up 3,8% of the total volume of investments;
- 157,3 million rubles (3%) were allocated for acquisition of computers and server equipment, for technical support of automated systems of technical record;
- 20,4 million rubles (0,4%) were spent for implementation and modernization of billing;
- 16,2 million rubles (0,3%) were spent for implementation of information security and protection systems, for organization of corporate data transfer network, implementation of network management and planning system, implementation of management and record keeping systems.

Intrazonal communication.

In 2005 OJSC “VolgaTelecom” continued the construction of ring fiber-optic communication lines ensuring the transit of growing traffic of data transfer networks, of IP and traditional telephone communication. The branches constructed 1621 km of fiber-optic and 139,6 km of microwave radio intrazonal communication lines.

4 ATDX were modernized and expanded. Their capacity grew by 32 270 channels.

City’s telephone network.

During 2005 at OJSC “VolgaTelecom” city’s telephone networks there was completed the construction and commissioned the equipment of 73 city exchanges of the total installed capacity of 420,01 thousand numbers.

The major input to the installed capacity of city’s telephone networks was contributed by digital telephone exchanges. During 2005 the share of digital exchanges in the total capacity of switching equipment at the Company’s city’s telephone networks increased from 63,4 % to 69,5 %. Utilization factor of installed capacity of all exchanges installed at the Company’s PSTNs increased from 93,6% to 94,0%.

Due to the commissioning of new digital exchanges and change-over of considerable part of subscriber lines to them 62 analog exchanges were disassembled.

As of January 1, 2006 the total number of automatic exchanges in cities, towns and settlements made up 799 with the total installed capacity of 4169,64 thousand numbers.

For 2005 the gain of basic telephone sets amounted to 210 703 units. After the commissioning of new ATXs the number of city’s phones with automatic access to DLD telephone network increased by 214,52 thousand numbers and made up 3917,76 thousand numbers.

The installed capacity of ATXs with time-based billing system for local calls increased by 285,1 thousand numbers; out of them - 146,46 thousand numbers are in commercial operation.

Totally for the entire Company the number of corporate PABXs having access to local telephone networks reduced by 29, herewith the installed capacity of corporate PABXs having access to PSTN increased by 13,22 thousand numbers for the entire Company.

The total number of exchanges installed at communication networks of other operators and having access to PSTN also reduced by 33 exchanges for the entire Company. The main reduction of this indicator occurred in Nizhny Novgorod branch. Herewith the installed capacity of exchanges of other electric communication operators having access to the Company’s city’s telephone networks increased by 1988,82 thousand numbers and made up 4171,52 thousand numbers.

During the year the share of other operators of electric communication networks in total capacity of PSTN increased from 36,4% to 49,28%.

In cable line facilities of local telephone communication the activities were aimed at improving the reliability and efficiency of their utilization and the improvement of the quality of servicing.

3 119 km of overhead and 11 512 km of cable communication lines were fully repaired. During the repair works 31 755 poles, 5 595 km of wires and 9 643 km of cable were replaced. 31 118 poles were strengthened by reinforced-concrete props, 2759 red flags and 1651 rippers were installed.

4 943 km of overhead communication lines were written off and removed, 1 181 channel/km of telephone duct lines were constructed, 23 486 km of cable were newly laid, including 536 km of fiber-optic cable.

Rural telephone communication.

For year 2005 at OJSC “VolgaTelecom” rural telephone networks the construction and commissioning of equipment at 204 rural telephone exchanges of the installed capacity of 97,6 thousand numbers was completed.

The major input to the installed capacity of rural telephone networks was contributed by digital telephone exchanges. During 2005 the share of digital exchanges in the total capacity of switching equipment at the Company’s rural telephone networks increased from 19,9 % to 30,3 %.

Utilization factor of installed capacity of all rural telephone exchanges installed at OJSC “VolgaTelecom” PSTNs increased from 89,3 % to 90,6 %.

The reduction of total number of rural telephone exchanges by 25 exchanges occurred due to disassembly of a large number of analog exchanges (ATCK 50/200, ATCK 100/2000).

As of 01.01.2006 the number of automatic telephone exchanges in rural settlements amounted to 4 997 units of total installed capacity of 780,9 thousand numbers.

During 2005 the gain of basic phone sets made up 46861 units. With the commissioning of new automatic exchanges the number of rural phones having automatic access to DLD network grew by 56,6 thousand numbers and made up 727,1 thousand numbers.

The installed capacity of ATXs having the function of time charging for local calls grew by 73,6 thousand numbers.

The number of corporate PABXs having access to local phone networks grew by 9 for the entire Company, and the total number of exchanges of communication operators having access to rural telephone networks reduced by 1.

The installed capacity of corporate PABXs grew by 2,2 thousand numbers and made up 10,2 thousand numbers, herewith the installed capacity of exchanges of communication operators having access to the Company's rural telephone networks grew by 0,7 thousand numbers.

During the year the share of communication networks of other operators in the total installed capacity of PSTNs grew from 0,97 % to 1,29 %.

Data transfer and Internet access services.

In 2005 the number of dial-up access users made up 487,7 thousand/month with the scheduled figure of 460,8 thousand (performance of 105,8%). During the year the growth rate made up 142,9%. During 2005 the gain of dial-up access users made up 146,5 thousand.

During 2005 "Internet-density" reflecting the percentage of OJSC "VolgaTelecom" telephone communication subscribers who use the Company's services of Internet dial-up access increased from 7,8 % to 10,5%. This growth was facilitated by the development of "Internet for all" service which is very popular among general public. The number of "Internet for all" service users made up 56,1% of the total number of dial-up access users. This indicator (95%) is the highest in the branch of the Republic of Mariy El and in Nizhny Novgorod branch where "Internet-density" indicator is the highest.

For 2005 the number of ports engaged for providing the services of dedicated line access made up 31,8 thousand vs. the scheduled figure of 30,9 thousand (performance of 103%). Vs. 2004 the total volume grew by 3,9 times and the gain increased by 6,3 times.

The growth of dedicated line access users is achieved due to the active introduction of xDSL wideband digital access service. For 2005 the number of points of xDSL connection in the entire Company made up 27,1 thousand (this is 85% of the total number of connections of all the technologies of dedicated line access).

Data transfer networks.

The connection of such number of users would not be possible without construction and modernization activities at data transfer networks of the Company's branches. The following was done during 2005.

In OJSC "VolgaTelecom" branch in the Republic of Mariy El in Yoshkar-Ola town there was created DPT network of 4 Gbps capacity. At present the network consists of 9 nodes built on the basis of Cisco 10720 backbone routers by utilizing unoccupied fibers at existing fiber-optic communication lines. Additionally in Yoshkar-Ola town 10 access gates of 1 Gbps capacity were organized.

In OJSC "VolgaTelecom" branch in the Republic of Mordoviya there was completed the construction of 2-nd start-up complex of the project "Construction of regional multi-protocol network of the branch". In 2005 for the 2-nd start-up complex 7 additional nodes were commissioned. All in all 19 nodes out of 24 scheduled by the project were constructed. The network is being constructed on Cisco Catalyst 3550 switches by using Gigabit Ethernet technology and by utilizing unoccupied fibers at existing fiber-optic communication lines.

In Orenburg, Samara, Saratov, Ulyanovsk branches and also in the branch of the Republic of Chuvashiya backbone data transfer networks were considerably developed. The tendency has

taken shape to construct backbone data transfer networks in oblasts' centers by Gigabit Ethernet technology with implementation of IP/MPLS technology.

In OJSC "VolgaTelecom" Samara branch in Samara city there was additionally organized 8 nodes of data transfer network (including office centers), in all other 22 nodes additional equipment was installed. At present in Samara city there were constructed 30 nodes combined by Gigabit Ethernet transport network (on the basis of Cisco Systems equipment). In Samara oblast Gigabit Ethernet existing network was expanded by 10 nodes. Thus, currently Gigabit Ethernet network, organized by utilization of unoccupied fibers, covers 21 node of electric communication out of 31 nodes in Samara oblast.

In OJSC "VolgaTelecom" Saratov branch in Saratov city there were commissioned 25 new access nodes, 24 nodes were modernized (totally there are 49 nodes) within the project "Expansion of data transfer network of the branch". Data transfer network was modernized by using Cisco Systems equipment. The modernization resulted in commissioning of the network with 1 Gbps capacity and supporting IP/MPLS technology. 19 nodes of data transfer network were modernized in Saratov oblast.

In OJSC "VolgaTelecom" branch in the Republic of Udmurtiya the existing commercial network "Izhcom" (xDSL) was integrated with 2,4 Gbps DPT transport network of the branch, and also xDSL access was expanded.

In OJSC "VolgaTelecom" Ulyanovsk branch Gigabit Ethernet data transfer network was expanded and modernized (over unoccupied fiber-optic communication lines), xDSL access network was expanded.

In OJSC "VolgaTelecom" branch in the Republic of Chuvashiya in Cheboksary town and in Novocheboksarsk town at all 13 nodes the transport network capacity was increased by utilizing SDH Siemens equipment (Surpass multiplexers). For 3 nodes the capacity made up 100 Mbps and for the balanced ones 10 – 50 Mbps.

Activities with backbone Internet providers.

As of 01.01.2006 the carrying capacity of backbone Internet channels made up 406 Mbps. For 2005 the growth of consumed traffic from backbone Internet providers amounted to 177% (from 35 Tbps in December 2004 to 62 Tbps in December 2005). Along with the growth of volume of consumed traffic there occurred the reduction of average cost of 1 Gbite of superior provider OJSC "RTComm.RU" by 26% (from 554 rubles/Gbite in December 2004 to 410 rubles/Gbite in December 2005).

Intelligent communication network.

In 2005 the Intelligent communication network based on "Berkut" equipment was constructed in all the branches of OJSC "VolgaTelecom" and was put into commercial operation since 01.12.2005. The Intelligent communication network operator's code was obtained - 80X-707. In Nizhny Novgorod branch the Intelligent communication network is in commercial operation since 01.04.2004. In the Company's Nizhny Novgorod branch there was no active promotion of the services as the Intelligent communication network operator's code was issued only in August 2005. At present 103 numbers of Intelligent communication network are in use in Nizhny Novgorod branch.

The following services are realized within OJSC "VolgaTelecom" Intelligent communication network:

- Free call (8-800-707-XXXX);
- Voting over the phone (8-803-707-XXXX);
- Access universal number (8-804-707-XXXX);
- Call with additional payment (8-809-707-XXXX).

The next stage of the project's realization will be implementation of uniform service card (USC). The project will be realized in two phases:

- 1-st phase – provision of the entire range of services (telephone communication, telephony over the network with packet switching, Internet dial-up access);
 - 2-nd phase – payment for communication services.
- USC will be effective on the entire territory of the Company’s coverage area.

Cable TV.

In 2005 the activities of cable TV networks development were carried out in 8 branches: in Kirov, Nizhny Novgorod, Orenburg, Samara, Saratov branches, in the branches of the Republics of Mariy El, Mordoviya and Chuvashiya.

It should be noted that the branch in the Republic of Mordoviya in 2005 designed the project “Construction of digital over-the-air-cable TV network of DVB-T standard” and it was that branch where the first phase of the project was realized. TV broadcasting is organized in 6 districts of the Republic.

In 2005 the growth of subscribers’ base of cable TV network made up 126,3% vs. 2004. The number of connected subscribers exceeded 165 000, which is 60% of the network’s capacity. The plans for 2006 envisage the increase of the subscribers to 209 000 (the gain is at least 44 000).

Telephone communication by packet switching technology.

In 2005 the service of telephone communication by packet switching technology was implemented in the branches of the Company. In 2005 the volume of traffic amounted to 20 million minutes, the growth rate was 132% vs. 2004.

MVTS firmware of “Mera” company make was supplied to additionally equip “packet telephony” nodes.

For 2006 it is planned to bring this service in compliance with new regulatory documents and to integrate it with NGNs under construction. Activities of organizing the interface with DLD and ILD communication operators are carried out. The subscriber’s level of “packet telephony” service will be developed within NGN project. The service will be provided to the users of dedicated line access. In 2006 the priority trend of IP-telephony service development will be the connection of corporate customers. It is also planned to provide the service by using USC implemented within the project of Intelligent communication network.

Cellular communication.

Cellular business is one of the most fast-growing development trends in new communication services area. In 2005 OJSC “VolgaTelecom” was actively developing this trend as per the approved Strategy of cellular business development.

Major activities in 2005:

Table 11

January-April	Analysis of performance of indicators and basic provisions of the approved Strategy of cellular business development of OJSC “VolgaTelecom” for 2004.
March	Acquisition of equity stake of cellular communication operator in the republic of Mordoviya CJSC “RTCOM” in the amount of 100%. Elaboration of the company’s business-plan development for 2005-2009.
May-September	Joint activities with analysts and examination of their proposals as regards the variants of the Strategy’s updating, consolidation and development of regional cellular companies of the Volga region. APEX Emerging Markets Finance analysts took part in the examination of this project.
October	The project of the updated Strategy of OJSC “VolgaTelecom” cellular business development is presented.
October	Negotiations with MCT Corporation on appraisal of CJSC “Saratov Mobile”,

	CJSC “Chuvashiya Mobile” and CJSC “Penza Mobile”.
November	The report is presented on evaluation of different variants of corporate structure of OJSC “VolgaTelecom” cellular business.
November	Start of commercial operation of GSM 1800 network in the Republic of Mordoviya – CJSC “RTCOM”.
December	The draft of Master-plan on activities of the updated Strategy of cellular business development is presented.

The department of mobile communication carried out the activities with the branches and subsidiary and affiliated companies on centralization of business-processes:

- Coordination in budget-financial area ensured control over operating activity of subsidiary and affiliated cellular companies. Uniform forms of weekly, monthly and quarterly operating-financial reporting, bookkeeping and tax accounting were introduced.
- Centralization of actions in technical policy area, IT development allowed for reducing CAPEX and OPEX.
- In 2005 there was arranged the zone of preferential roaming between subsidiary and affiliate companies. The analysis was made and institutional arrangements were defined to use uniform MNC 03 code in order to create roaming-free space in 2006.
- Coordination of the Companies marketing strategies. Creation, implementation and utilization of uniform marketing product/brand – “ON” tariff plan.

To ensure the development of subsidiary companies in accordance with business-plans for 2005 there was organized the financing of investment programs by obtaining bank credits against guarantee obligations of OJSC “VolgaTelecom”, including the financing of CJSC “RTCOM” in the amount of 114 million rubles with OJSC JSCB “Svyazbank” and CJSC “Orenburg-GSM” in the amount of 57 million rubles.

Basic performances of cellular business development in subsidiary companies.

Table 12

OJSC “VolgaTelecom” market share in the total base of cellular operators of 5 regions, including	2004	2005
	25 %	21 %
1. CJSC “Nizhny Novgorod Cellular Communication”	41 %	39 %
2. OJSC “VolgaTelecom” branch in the Republic of Mariy El	50 %	39 %
3. CJSC “Ulyanovsk-GSM”	37 %	27 %
4. CJSC “Orenburg-GSM”	10 %	6 %
5. OJSC “TATINCOM-T”	10 %	10 %
6. CJSC “RTCOM”	-	2 %

Despite the reduction of market shares related to competition with Federal cellular communication operators, the operator “Nizhny Novgorod Cellular Communication” managed to hold the leading position at the services market of its region.

Table 13

Total number of cellular communication subscribers, thousand men, including	2004	2005	Change, %
	1 215	1 762	145 %
1. CJSC “Nizhny Novgorod Cellular Communication”	720	997	138%
2. OJSC “VolgaTelecom” branch in the Republic of Mariy El	105	196	186 %
3. CJSC “Ulyanovsk-GSM”	150	179	119 %
4. CJSC “Orenburg-GSM”	60	89	148 %
5. OJSC “TATINCOM-T”	180	294	163 %
6. CJSC “RTCOM”	-	7	-

For 2005 the subscriber's base of subsidiary companies, including CJSC "RTCOM" of the Republic of Mordoviya, grew by 45%. Together with affiliate companies the subscriber's base made up 1 887 thousand subscribers.

Table 14

Total proceeds from cellular communication services, million rubles, including	2004	2005	Change, %
		2 418	2 995
1. CJSC "Nizhny Novgorod Cellular Communication"	1 319	1 698	129 %
2. OJSC "VolgaTelecom" branch in the Republic of Mariy El	210	217	103 %
3. CJSC "Ulyanovsk-GSM"	373	382	102 %
4. CJSC "Orenburg-GSM"	136	184	135 %
5. OJSC "TATINCOM-T"	381	506	133 %
6. CJSC "RTCOM"	-	8	-

In 2005 the average monthly revenue per 1 subscriber made up about US\$7 (in 2004 – US\$10).

6.1. Investment policy.

Due to the reduction of consumer demand at telecom market of the regions of the Volga Federal District for the services of traditional communication and the Company's efforts to improve the performances of liquidity and restructuring of debt load the volume of investments in 2005 was reduced vs. the previous year. In 2005 "VolgaTelecom" capital investments match the average figure of the companies of OJSC "Svyazinvest" holding.

Table 15

№	Index description	Measure unit	2004	2005	The rate of indexes change 2005/2004 (%)
1.	Funds invested into fixed-capital assets - total,	Million rubles	6964,5	5208,7	74,8%
1.a	Trends of investments:	Million rubles			
	- fixed-line telephone communication		4434,9	2886,6	65,1%
	- cellular communication		191,6	255,7	133,5%
	- DLD, ILD and intrazonal telephone communication		757,2	573,2	75,7%
	- new services		165,5	326,0	196,9%
	- data transfer networks and infrastructure		335,1	280,4	83,7%
1.b.	- investments into IT	%	3,9	7,6	x
	- other	%	11,6	9,5	x
2.	Share of proprietary resources allocated for investments financing	%	47,0	66,9	x
3.	Share of raised funds allocated for investments financing	%	53,0	33,1	x

In 2005 the Company continued to realize Federal program "Social development of rural area".

Taking into account the fact that basically within the program social projects are realized with large payoff period, to minimize the Company's costs the activities were carried out to raise

budgetary funds of Russian Federation subjects to finance these projects, however, the budgetary funds made up only 2,4% of the investments volume.

Table 16

	Scheduled volumes of investments	Accomplished volume of investments, total	Including:		Commissioned productive facilities
			Proprietary resources	Raised funds	
Total for the program	280 666	300 914	293 614	7 300	
Local telephone network numbers					68 982
DSL-access ports					352
Intrazonal fiber-optic transmission lines, km					181

OJSC “VolgaTelecom” is actively participating in realization of Federal target program “Electronic Russia” facilitating the implementation and advance of modern information and telecommunication technologies among the Volga region population. Special attention is paid to the following projects:

- “Electronic Government”;
- “E-commerce”;
- “Distance learning”;
- “Telemedicine”.

OJSC “VolgaTelecom” provides Internet access services to 55 256 organizations financed from the appropriate budgets, to governmental authorities and to local government administrations. At 2005 year end the penetration level of OJSC “VolgaTelecom” Internet services for state-financed organizations made up 27,4%. Among the Company’s branches a high share of coverage of state-financed sector by Internet access services is in Orenburg branch (69,1%), in the branch of the Republic of Chuvashiya (56%), in Penza branch 43,9%), in the branches of the Republic of Mordoviya (41,2%) and the Republic of Mariy El (38,7%).

6.2. Basic indexes of network development.

Table 17

№	Index description	Measure unit	2004	2005	The rate of indexes change 2005/2004 (%)
1.	The gain of haul of - DLD (intrazonal) VF channels total,	Thousand channel/km	19 988,2	23 520,5	17,7
	Including those formed by digital transmission systems	Thousand channel/km	18 228,2	22 262,6	22,1

2.	The gain of quantity of basic telephone sets, total,	Thousand units	258,3	257,6	-0,27
	Including - CTN;	Thousand units	212.3	210,7	-0,75
	- RTN	Thousand units	39.6	46.9	18,4
3.	The gain of outgoing automatic channels of automatic trunk exchange , total	Channels	37 391	41 509	11,0
	Zonal communication inclusive	Channels	28 393	32 270	13,7

6.3. The Company's basic economic performances.

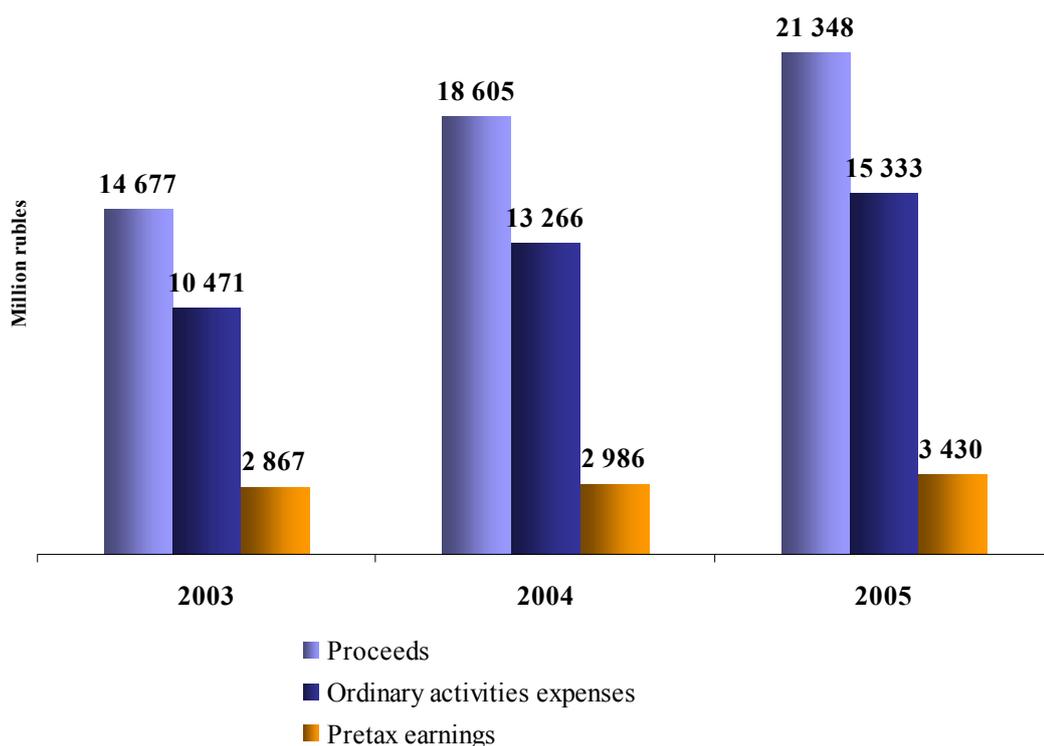
Table 18

Performances description	Measure unit	2004	2005	The rate of performances change 2005/2004 (%)
Proceeds (exclusive of VAT)	Million rubles	18605	21348	114,7
Tariff income	Million rubles	18171	20788	114,4
Expenditures	Million rubles	13266	15333	115,6
Balance sheet profit	Million rubles	2986	3430	114,9
Profitability by balance sheet profit	%	22,5	22,4	-0,1
Prime cost of 100 rubles of proceeds	Rubles	71,3	71,8	100,7

Basic financial-economic performances of the Company's activity in 2005 are provided in the chart.

Behavior of OJSC "VolgaTelecom" basic financial performances.

Chart 9



At 2005 year-end the Company's proceeds amounted to 21 348,4 million rubles with the gain of 2 743,6 million rubles vs. year 2004 level.

At 2005 year-end communication services revenues amounted to 20 787,6 million rubles. The gain of revenues for 2005 was secured in the amount of 2 616,4 million rubles, the growth rate - 114,4%.

Local telephone communication remains to be the major source of communication services revenues; its share in the total amount of revenues is 46,1%. Local telephone communication services revenues made up 9580 million rubles, the growth rate vs. 2004 is 123,2 %. The gain of revenues was secured in the amount of 1810 million rubles.

At 2005 year-end the share of DLD revenues made up 29,8%, having reduced by 6,1% vs. 2004. The revenues were derived in the amount of 6208 million rubles. The level of revenues was affected by the traffic volume and reduction of tariffs for services.

Connection and traffic transit services revenues are developing dynamically. At 2005 year-end their share in the total amount of revenues made up 12,9%, the growth rate is 133% vs. 2004. At the year-end connection and traffic transit services revenues amounted to 2686,5 million rubles, the gain is 667 million rubles vs. 2004.

At the year-end the revenues from services based on new technologies amounted to 1507 million rubles or 7,3% of the total amount of communication services revenues of year 2005. The growth rate made up 160,9%.

The revenues from providing access to information resources made up 1157 million rubles or 3,9% in the total amount of communication services revenues. As of today this is the most promising and dynamically developing service. The amount of gain of Internet services revenues made up 455 million rubles.

Radio broadcasting and TV revenues amounted to 154,9 million rubles which is more by 30,8 million rubles or by 24,8% than the level of year 2004. In these revenues structure the major share falls on cable TV services revenues - 88,4 million rubles or 57% of the total amount of revenues of this industry. Considerable growth of cable TV services revenues – 175% vs. 2004 – was secured both due to the growth of subscribers' number and conducted tariff policy and the

increase in the number of broadcasting channels. At 2005 year end the number of cable TV network subscribers made up 163,8 thousand which is by 32,9 thousand subscribers more vs. the relevant period of 2004.

One should note continuing reduction of revenues from inland telegrams and wire broadcasting services. The reduction of quantity of outgoing inland fee-based telegrams by 18,2% vs. 2004 cut the revenues by 10 million rubles.

The situation is the same with wire broadcasting services revenues. Elimination of wire broadcasting room speakers made up 428,6 thousand units or 19,8% vs. 2004 which reduced the revenues by 38,4 million rubles.

Determining factors that affected the formation of the Company's revenues from communication services provision in 2005 are:

- Network development and expansion of communication services range rendered by utilizing new technologies;
- Change of tariffs for communication services;
- Increase in the volume of services rendered to connected operators,
- Competition development at the markets of intrazonal and local communication services, reduction of demand for the Company's services and correspondingly the reduction of the Company's share at these markets in a number of regions.

The first three factors, exclusive of the reduction of tariffs for a number of regulated services, provided for the gain in the amount of 2975,9 million rubles vs. 2004, while the fourth factor impacted negatively the Company's revenues raising. Due to the reduction of demand for DLD & ILD services vs. 2004 (outgoing fee-based exchange over DLD & ILD connections per one subscriber under comparable conditions per year will make up 503 minutes – this is by 33 minutes or 6% less than 2004 level), and also due to the reduction of tariffs for DLD communication services, the Company derived the revenues by 351,7 million rubles less than in 2004.

6.4. Revenues structure by kinds and categories of consumers for 2005.

Table 19

Services	Total (exclusive of VAT), Thousand rubles	Including	
		From state- financed or- ganizations, thousand ru- bles	From resi- dential sec- tor, thou- sand rubles
Revenues from communication services and from connection and traffic transit services – total including:	20 787 642	1 635 924	11 852 467
DLD & ILD VF communication	6 207 674	596 645	3 238 514
City's telephone communication	8 192 693	675 874	6 132 777
Rural telephone communication	1 387 136	119 698	1 132 581
From connections provided by the utilization of all kinds of payphones	138 551	211	137 340
Recording communication	1 417 437	163 561	610 497
Radio communication, radio broadcasting, TV and satellite communication	154 917	44 575	86 636
Wire broadcasting	352 628	26 272	301 232
Mobile communication	250 107	5 931	212 890
Connection and traffic transit services	2 686 501	3 157	0

As per the data of form 65-communication for 2005.

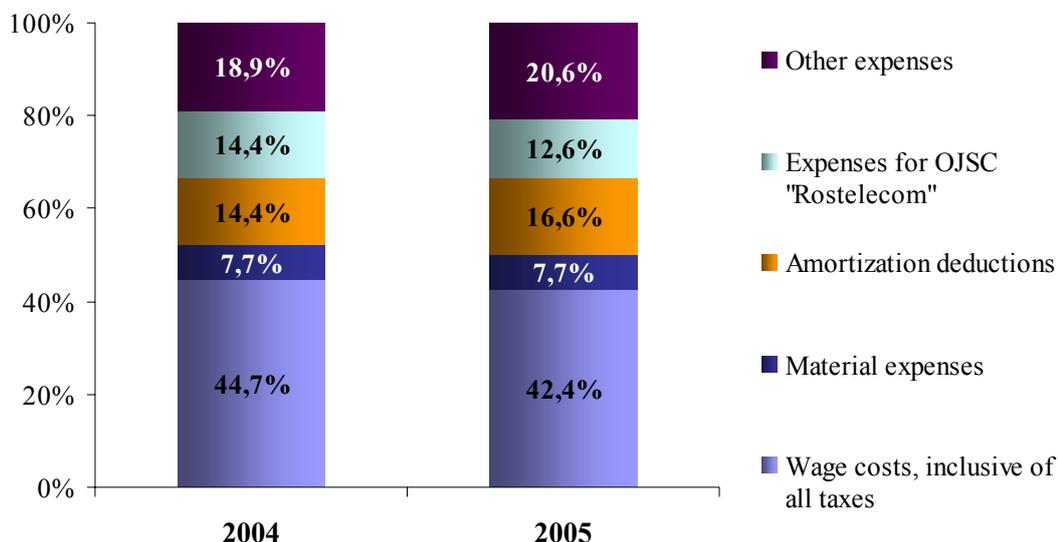
6.5. The structure of expenditures for 2005.

In 2005 the Company's expenditures made up 15 333 million rubles. The prime cost of 100 rubles of proceeds - 71,82 rubles.

In 2005 the structure of expenditures did not undergo any essential changes. One should note a slight reduction of "Rostelecom" expenses share (-1,8%), the share of labor costs with allowances (-2,3%) and the growth of expenses for amortization deductions.

OJSC "VolgaTelecom" expenditures structure.

Chart 10



The following expenses considerable affected the growth rate of expenditures in 2005:

Table 20

	2004	2005	Growth rate, %	Prime cost structure in 2004, rubles	Prime cost structure in 2005, rubles
Ordinary activities expenses	13 264 137	15 333 051	115,6	71,29	71,82
Out of them:					
Amortization deductions	1 911 622	2 550 129	133,4	10,27	11,95
Interconnect expenses, exclusive of "Rostelecom"	383 873	501 902	130,7	2,06	2,35
Traffic transit - Russian	87 485	109 242	124,9	0,47	0,51
Internet access - Russian	172 547	271 520	157,4	0,93	1,27
Universal servicing reserve	0	128 818		0,00	0,60
Other expenses	10 708 609	11 771 440	109,9	57,56	55,14

The items listed in the table depend upon network development, change of demand for services, and also upon the change of legislation. In most cases the Company actually has immaterial capabilities to manage them.

So, in connection with the adoption of RF Government regulation № 243 "On approval of rules of forming and spending of funds of universal servicing reserve" of 21.04.2005 the Company, since May 2005, is charging universal servicing reserve, which increased the Company's expenses by 130 million rubles for 2005. Comparable prime cost, exclusive of expenses for the reserve charging, will make up 71,22 rubles, which is by 7 kopecks less vs. past year level. The growth rate of expenses, exclusive of universal servicing reserve, made up 114,6%, which is lower than the proceeds growth rate.

Amortization deductions (share in expenses - 16,6% vs. 14,4% in 2004) amounted to 2 550,1 million rubles, the growth rate is 133,4 % vs. the past year, which is caused by commissioning of fixed assets in the end of 2004 and during the period under analysis. Upon the whole for the entire Company the expenses for amortization deductions do not exceed the expected level.

It is clear from the provided table that other expenses controlled by the Company's management grew in 2005 actually within inflation corridor – 110% for the year, “manageable” part of the prime cost reduced by 2,42 rubles vs. the past year, which testifies to the enhancement of the Company's activity efficiency.

6.6. Basic indicators of the Company's operation efficiency.

As a result of quite efficient management by the expenses the Company fulfilled the plan of operating income (6015,3 million rubles). Deviation from the plan made up just 9 million rubles or 0,15%.

Pretax earnings amounted to 3 429,7 million rubles outstripping the plan by 288 million rubles or by 9,18%.

The basic reasons for outstripping the approved earnings plan were:

- Reduction of the Company's debt servicing cost. Average weighted interest rate for debt servicing, which as of 01.07.2005 was 12,1%, was reduced to 9,1% as of 01.01.2006, which substantially cut the company's costs for the debt servicing. Total saving on interest costs made up 212 million rubles.

- Activities with accounts receivable. As a result of the activities to recover the debt from federal budget, the subject of the recovery being quittance of the Company's expenses related to the compensation of privileges granted to the subscribers on the basis of current legislation, the Company received the funds restoring allowance for doubtful accounts in the amount of 92,8 million rubles.

The Company's net profit made up 2261, 6 million rubles, which exceeds the expected level by 192,8 million rubles. The profit growth rate vs. 2004 made up 110%.

Table 21

№№	Indicators description	Measure unit	2004	2005	Indicators change rate (%)
1.	Revenue per a line	Rubles	4311	4604,6	106,8
2.	Profit per a line	Rubles	692,8	739,8	106,8
3.	Revenue per an employee*	Rubles	389,8	459,6	117,9
4.	Profit per an employee*	Rubles	62,6	73,8	117,9
5.	Number of lines per an employee	Lines	90,4	99,8	110,4

* - staff on the payroll for the reporting year was taken into account.

6.7. Information about the Company's net assets.

Table 22

	As of 01.01.2006
1. The amount of net assets (thousand rubles)	16 515 274
2. Authorized capital (thousand rubles)	1 639 765
3. Required reserve (thousand rubles)	81 988
4. Ratio of net assets to authorized capital (line 1/line 2) (%)	1007,17%
5. Ratio of net assets to the amount of authorized capital and required reserve (line 1/(line 2+line 3)) (%)	959,21%

For the reporting period the net assets grew by 1 692 454 thousand rubles or by 11,41%.

VII. GUIDELINES OF PROFIT DISTRIBUTION

7.1. Report on guidelines of profit distribution for 2004.

Table 23

№.№	Items description	Measure unit	Distribution of profit for 2004	
			Approved by general meeting of shareholders on 28.06.2005	Actually distributed
1.	Net profit for 2004	Thousand rubles	2 056 268	2 056 268
2. Basic trends of appropriation of profits:				
2.1.	Dividends payment	Thousand rubles	544 552,3	544 552,3
	in % to profit	%	26,48	26,48
2.2.	To increase the joint-stock capital as related to undistributed profit of the reporting year	Thousand rubles	1 511 715,7	1 511 715,7
	in % to profit	%	73,52	73,52

7.2. Major scheduled trends of profit distribution for 2005.

Table 24

№.№	Items description	Measure unit	Amount
1.	Net profit of the reporting year	Thousand rubles	2 261 360
2. Major trends of the reporting year profit distribution:			
2.1.	To cover past years losses	Thousand rubles	
2.2.	To form required reserve	Thousand rubles	
	in % to net profit	%	
2.3.	To form special fund of corporization of the Company's employees (if its formation is stipulated by the constituent documents)	Thousand rubles	
	in % to net profit	%	
2.4.	Dividends payment	Thousand rubles	588 792
	in % to net profit	%	26,04
2.5.	To increase the joint-stock capital as related to undistributed profit of the reporting year	Thousand rubles	1 672 568
	in % to net profit	%	73,96

VIII. REPORT ON THE PAYMENT OF DECLARED (ACCRUED) DIVIDENDS ON THE COMPANY'S SHARES

- The resolution on payment of dividends for 2004 was passed by the general meeting of stockholders on June 28, 2005;
- The resolution of the general meeting of stockholders set July 15, 2005 as the date of dividends payment start;

- July 15, 2005 is the actual date of dividends payment start;
- The size of dividends to be paid on one share:
 - ordinary stock – 1,3779 rubles,
 - preferred stock – 2,5082 rubles;
- The dividends are paid in cash, by bank transfer, and by wire transfer;
- For 2004 the dividends were accrued in the amount of 544 552 273 rubles. As of December 31, 2005 the amount of paid dividends is 534 525 790 rubles or 98,2 % of the total amount of dividends due to payment. The balanced amount of dividends (10 026 483 rubles) was not paid due non-appearance of stockholders in the issuer’s office to receive dividends in cash, wrong (incomplete) outdated data on the bank requisites of the shareholders in the information of customer accounts in the register of OJSC “VolgaTelecom” securities, wrong (incomplete) outdated data on mail address of the shareholders in the information of customer accounts in the register of OJSC “VolgaTelecom” securities, probate cases proceedings.

**Behavior of declared (accrued) dividends on the Company’s shares
(on per a share basis)**

Table 25

Security’s kind	2002	2003	2004	2005 *
	Amount (rubles)	Amount (rubles)	Amount (rubles)	Amount (rubles)
Ordinary stock	0,7066	0,9186	1,3779	1,4744
Preferred stock	1,7954	2,4510	2,5082	2,7583

* The size of dividends proposed by the Company’s Board of directors for the approval at annual general meeting of shareholders is provided.

***IX. INFORMATION ABOUT MOST REVENUE-INTENSIVE
TRANSACTIONS MADE BY THE COMPANY***

In 2005 the Company made the transactions approved by the Company’s Board of directors in 2004:

1. Related party transaction, and namely the contract by and between OJSC “VolgaTelecom” and OJSC “Rostelecom” for operations maintenance of digital transmission system equipment, the contract is concluded on the following material terms and conditions:

The subject of the transaction – operations maintenance of digital transmission system equipment;

The transaction’s price – OJSC “Rostelecom” pays to OJSC “VolgaTelecom” the cost of operations maintenance of digital transmission system equipment in the amount of 173 252,20 rubles per month, exclusive of VAT;

OJSC “Rostelecom” transfers and OJSC “VolgaTelecom” accepts digital transmission system equipment for maintenance in accordance with Supplement № 3 (“The list and sites of “Customer’s” digital transmission system equipment locations transferred for operations maintenance”);

OJSC “VolgaTelecom” provides for the arrangements of operations maintenance of OJSC “Rostelecom” equipment in accordance with effective “Rules of operations of primary networks of RF integrated network” and effective algorithms of the system of technical operations control of DLD.

The contract validity term – the contract is effective since the date of its signature by both the parties and is valid till December 31, 2005.

The contract's signature date is 27.06.2005. Terms and conditions of the Contract are applicable to the Parties relations since January 01, 2005.

2. Related party transaction, and namely agency contract № 05-21/0255 by and between OJSC “VolgaTelecom” and OJSC “Rostelecom”, the contract is concluded on the following material terms and conditions:

The subject of the transaction – performance of legal and other actions related to making settlements with OJSC “VolgaTelecom” Users for Reference-information services provided by OJSC “Rostelecom” or by third parties under the appropriate contracts with OJSC “Rostelecom” by codes DEF=809 200;

The transaction's price – OJSC “VolgaTelecom” agency fee makes up 20% of the amount of payments received for Reference-information services;

The contract becomes effective following the approval by the Parties' Boards of directors and is valid till December 31, 2005. The provisions of the agency contract are applicable to settlements with OJSC “VolgaTelecom” Users for Reference-information services rendered by OJSC “Rostelecom” or by third parties since May 01, 2005. If neither Party notifies in writing the other party about cancellation and/or change of the Contract, then the Contract is automatically prolonged for the next period of one year.

The contract's signature date is June 14, 2005.

3. Related party transaction, and namely supplementary agreement №3 to contract № 05-21/0155 of 24.10.2003 by and between OJSC “VolgaTelecom” and OJSC “Rostelecom”, the agreement is concluded on the following material terms and conditions:

The transaction's subject – change of terms and conditions of contract № 05-21/0155 of 24.10.2003 as related to providing additional service of traffic transit from OJSC “VolgaTelecom” subscribers to Intelligent communication network platform of OJSC “Rostelecom” by code DEF=809 200;

The transaction's price is defined by supplementary agreement №3 to contract № 05-21/0155 of 24.10.2003, in accordance with Supplement №1, Table 1.1. “Calculation of the Parties' payments”;

The calls duration by code “809 200” is accounted since the first second of connection. The rate's calculations are effective for each minute of completed call. Short minute of each completed call is rounded to full minute.

The validity term of supplementary agreement – supplementary agreement becomes effective since the date of its signature and is applicable to the settlements of the parties for the traffic transited by code “809 200»” since May 01, 2004. The agreement validity term terminates since the date of agency contract termination.

Supplementary agreement becomes effective since 14.06.2005.

In 2005 the company did not make revenue intensive transactions.

The transactions approved by the Company's Board of directors in 2005:

February 7, 2005 (minutes № 19)

The Board of directors made the decisions of:

Approval of related party transaction, and namely: conclusion of contract by and between OJSC “VolgaTelecom” and CJSC “NCC” for the purchase of the equipment for the branch in the Republic of Mariy El on the following material terms and conditions:

The transaction's subject – purchase of the equipment of cellular radiotelephone communication (as per Supplement №1 to the Contract);

The transaction's price – 1 273 668 (One million two hundred seventy three thousand six hundred sixty eight) rubles, VAT inclusive.

The Buyer transfers the amount specified in item 3.1 of the contract to the Seller's settlement account within 40 (Forty) banking days since the signature of the Equipment delivery-acceptance certificate, but not earlier than February 20, 2005;

For the delay of obligations performance under this contract the party that made the delay is to pay to the other party under its written request the delay penalty in the amount of 0,1% of the Equipment cost for each day of the delay. The delay penalty payment does not discharge the party of the obligation performance;

The validity term - the contract becomes effective since the date of signature by authorized representatives of both the parties and is valid till the parties' performance of their obligations.

The contract became effective on 25.01.2005.

On approval of related party transaction, and namely: the equipment rent contract with further passing into the ownership, the contract being concluded by and between OJSC "VolgaTelecom" and CJSC "NCC" on the following material terms and conditions:

The transaction's subject – provision for temporary utilization with further passing into the ownership of the equipment of cellular radiotelephone communication - A 900/1800 switching sub-system of cellular mobile communication of GSM 900/1800 standard as per Supplement №1.

The transaction's price – monthly rental fee for provided equipment in the amount of 2 028 818 (Two million twenty eight thousand eight hundred eighteen) rubles, including VAT in the amount of 309 481 (Three hundred nine thousand four hundred eighty one) ruble, and the total value of rental fee for the equipment, which is repurchase price in the amount of 146 074 849 (One hundred forty six million seventy four thousand eight hundred forty nine) rubles, including VAT in the amount of 22 282 604 (Twenty two million two hundred eighty two thousand six hundred four) rubles.

Following the payment of repurchase price in the amount of 146 074 849 (One hundred forty six million seventy four thousand eight hundred forty nine) rubles, including VAT in the amount of 22 282 604 (Twenty two million two hundred eighty two thousand six hundred four) ruble, the equipment specified in Supplement № 1 to this Contract passes into the ownership of OJSC "VolgaTelecom".

For the delay of return, in case of early cancellation of the contract, of the Equipment or its component parts during the period established by the contract the Lessee pays to the Lessor by its request the fine in the amount of 0,1 % for each day of delay, and if the delay lasts more than 10 days – additional liquidated damages in the amount of 0,3 % of the cost of rented equipment not returned in due time.

For the delay of transfer of rental fee the Lessee by written request of the Lessor pays the fine in the amount of 0,1 % of the debt sum for each day of delay.

During the return, in case of early cancellation of the contract, of the Equipment damaged due the Lessee's fault or with completeness disturbance, the Lessee, apart from compensation of the cost of missing parts and expenses for repair, pays by the Lessor's request the fine in the amount of 10% of the cost of damaged (incomplete) Equipment.

The Lessor is responsible for the delay of the Equipment transfer to the Lessee, or for the transfer of the Equipment without the documentation required for its operation due to the reasons within the Lessor's control in the amount of 0,1% of the amount of monthly rental fee for each day of delay specified in item 3.1. of this contract.

For the defects of the equipment transferred to rent, the Lessor is responsible in the amount of 0,1% of the amount of monthly rental fee for each day of delay till the elimination of such defects.

The contract validity term is 6 (six) years since the date of the signature of the Equipment delivery-acceptance certificate.

The contract became effective on 16.03.2005.

February 25, 2005 (minutes № 23)

The Company's Board of directors approved the transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date: the Contract of opening by JS Savings Bank of RF (OJSC) of nonrevolving credit line to the Company and the contract of pledge of fixed assets concluded by and between JS Savings Bank of RF (OJSC) and the Company on the following material terms and conditions:

Approve the transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, including:

The Contract of opening by JS Savings Bank of RF (OJSC) of nonrevolving credit line to the Company on the following material terms and conditions:

The transaction's subject – opening by JS Savings Bank of RF (OJSC) of nonrevolving credit line to the Company;

Credit line limit – 868 150 000 (Eight hundred sixty eight million one hundred fifty thousand) rubles;

Period of credit – 4 years;

Interest rate - 13 p.p.a.

The contract became effective on 01.03.2005.

The contract of pledge of fixed assets concluded by and between JS Savings Bank of RF (OJSC) and the Company on the following material terms and conditions:

The transaction's subject – provision by the Company in pawn to JS Savings Bank of RF (OJSC) of the property to guarantee the execution of credit liability,

Secured liability – contract of opening by JS Savings Bank of RF (OJSC) of nonrevolving credit line to the Company with the limit of 868 150 000 (Eight hundred sixty eight million one hundred fifty thousand) rubles; at the rate of 13 p.p.a., credit's period – 4 years;

The subject of pledge – equipment;

Collateral value of the subject of pledge – 896 369 549 (Eight hundred ninety six million three hundred sixty nine thousand five hundred forty nine) rubles 88 kopecks.

The contract became effective on 01.03.2005.

February 28, 2005 (minutes № 24)

The Board of directors made the decisions:

On the approval of related party transaction, and namely of contract by and between OJSC "VolgaTelecom" and LLC "Vyatka-Page" for the supply of "SOLO" home receivers on the following terms and conditions:

The transaction's subject – supply to the Buyer of VHF "SOLO PII-201-3" home receivers to the number of 33 000 units.

The transaction's price – 13 926 000 rubles, VAT inclusive.

Term of delivery – within 20 days since the receipt of advance payment as per item 5.3.1 of the Contract in accordance with the Schedule of "SOLO PII-201-3" home receivers' supply for OJSC "VolgaTelecom" branches (Supplement № 2 to the Contract).

The settlement for supplied goods is made in the following way:

30% of the cost of shipment of goods within 20 banking days since the receipt of the Supplier's invoice.

Final settlement in the amount of 70% of the shipment of goods accepted by the Consignee – within 20 banking days since the date of signature of the goods delivery-acceptance certificate at the Consignee's warehouse.

During the Contract's validity term the price may be changed only upon the consent of both the parties subject to signing the Protocol of the price change. The price cannot be changed after the Buyer's transfer of advanced payment to the Supplier's account.

The contract validity term is till December 31, 2005. In case, if by the specified date the Parties still have non-performed obligations resulting from this Contract, then the validity term of the Contract is prolonged till full performance by the Parties of their obligations.

The contract became effective on March 10, 2005.

On approval of related party transaction, and namely the contract of equipment rent by and between OJSC "VolgaTelecom" and LLC "Izhcom" on the following material terms and conditions:

The transaction's subject – provision of the equipment for rent as per Supplement №1 to the Contract of equipment rent.

The transaction's price is monthly rental fee in the amount of 50 000 (Fifty thousand) rubles per month, VAT inclusive.

The contract's validity term – the contract becomes effective since the signature date and is effective till June 01, 2005.

The provisions of this contract are applicable to earlier occurred relationships of the parties since December 01, 2004.

The contract is considered to be prolonged for the same period if neither Party makes the statement of the contract's cancellation 30 days prior to the expiry of its validity term.

The Lessor on a monthly basis, not later than the 10-th day of the month following the reporting one provides the Lessee the invoice for payment for the rental fee for the reporting month. The Lessee on a monthly basis, not later than 20 days since the date of the invoice receipt makes the payment of rental fee for the month.

The transfer of the equipment for rent is executed by delivery-acceptance certificate within 10 days period since the date of the contract's conclusion.

The Lessor has the right to cancel this contract unilaterally and claim the reimbursement of damages in cases when the Lessee:

- materially impairs the equipment condition;
- does not follow the operations instructions of the manufacturer.

The Lessee has the right to cancel this contract unilaterally and claim the reimbursement of damages from the Lessor:

- when detecting defects making the standard operation of the equipment impossible or burdensome; the Lessee was not aware of these defects and was not able to know at the time of the contract conclusion;
- if the equipment, due to circumstances for which the Lessee is not responsible, turns out to be unsuitable for use;
- if when concluding the contract the Lessor did not warn it about third parties rights to the transferred equipment;
- if the Lessor fails to perform its obligation to transfer the equipment or its accessories and documents relating to it, without which the equipment cannot be used for the purpose specified;
- if the Lessor fails to perform the obligation of routine and heavy repair of the transferred equipment.

The contract became effective on March 14, 2005.

March 29, 2005 (minutes № 26)

The Board of directors approved the related party transactions, and namely: - additional agreements on cancellation since January 01, 2005 of contracts about Non-government retirement insurance, concluded with Non-government Pension Fund "Doverie" in favor of the employees of: the Company's General directorate and Nizhny Novgorod branch, Kirov branch, branch in the Republic of Mordoviya, branch in the Republic of Mariy El, branch in Chuvashiya Republic, branch in the Republic of Udmurtiya of OJSC "VolgaTelecom":

Approve the related party transaction – additional agreement on cancellation of contract № 2 of 04.02.1998, regulating the procedure of non-government retirement insurance of the employees of the Company's General directorate and Nizhny Novgorod branch concluded by the Company with Non-government Pension Fund "Doverie" on the following material terms and conditions:

The transaction's subject – cancellation since 01.01.2005 of contract № 2 of 04.02.1998, regulating the procedure of non-government retirement insurance of the employees of the Company's General directorate and Nizhny Novgorod branch;

The date of additional agreement conclusion is 01.02.2005.

Approve the related party transaction – additional agreement on cancellation of contract of non-government retirement insurance of the employees and veterans of OJSC "Kirovelectrosvyaz" № IO-25 of 25.06.2002, concluded by the Company with Non-government Pension Fund "Doverie" on the following material terms and conditions:

The transaction's subject – cancellation since 01.01.2005 of contract of non-government retirement insurance of the employees and veterans of OJSC "Kirovelectrosvyaz" № IO-25 of 25.06.2002;

The date of additional agreement conclusion is 01.02.2005.

Approve the related party transaction – additional agreement on cancellation of contract of non-government retirement insurance of the employees and veterans of OJSC "Svyazinform" of the Republic of Mordoviya of 24.12.2000, concluded by the Company with Non-government Pension Fund "Doverie" on the following material terms and conditions:

The transaction's subject – cancellation since 01.01.2005 of contract of non-government retirement insurance of the employees and veterans of OJSC "Svyazinform" of the Republic of Mordoviya of 24.12.2000;

The date of additional agreement conclusion is 01.02.2005.

Approve the related party transaction – additional agreement on cancellation of contract of non-government retirement insurance of the employees and veterans of OJSC "Martelcom" № IO-21 of 05.04.2002, concluded by the Company with Non-government Pension Fund "Doverie" on the following material terms and conditions:

The transaction's subject – cancellation since 01.01.2005 of contract of non-government retirement insurance of the employees and veterans of OJSC "Martelcom" № IO-21 of 05.04.2002;

Approve the related party transaction – additional agreement on cancellation of contract of non-government retirement insurance of the employees and veterans of OJSC "Svyazinform" of the Republic of Chuvashiya № IO-23 of 28.08.2002, concluded by the Company with Non-government Pension Fund "Doverie" on the following material terms and conditions:

The transaction's subject – cancellation since 01.01.2005 of contract of non-government retirement insurance of the employees and veterans of OJSC "Svyazinform" of the Republic of Chuvashiya № IO-23 of 28.08.2002;

The date of additional agreement conclusion is 01.02.2005.

Approve related party transactions – additional agreements on cancellation of contracts (as per the register to the number of 1171 contracts) of non-government retirement insurance of the employees of the branch in the Republic of Udmurtiya, concluded by the Company with Non-government Pension Fund "Doverie" on the following material terms and conditions:

The transaction's subject – cancellation since 01.01.2005 of contracts (as per the register to the number of 1171 contracts) of non-government retirement insurance of the employees of the branch in the Republic of Udmurtiya.

April 6, 2005 (minutes № 28)

The Board of directors made the decision on:

Approval of transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date - the contract of opening by JSB "Gazpombank" (CJSC) of credit line to the Company on the following material terms and conditions:

The transaction's subject – opening to the Company of credit line by JSB "Gazpombank" (CJSC);

Credit line limit – 500 000 000 (five hundred million) rubles;

Term of credit – 1,5 year, tranches not exceeding 360 days;

Interest rate – 13,5 p.p.a.

The contract became effective on 01.06.2005.

May 26, 2005 (minutes № 31)

The Board of directors made the decision on the approval of transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, and namely: the contract of opening by Volgo-Vyatskyi bank of RF Savings Bank of nonrevolving credit line to the Company and the contract of pledge of fixed assets concluded by and between Volgo-Vyatskyi bank of RF Savings Bank and the Company:

The contract of opening by Volgo-Vyatskyi bank of RF Savings Bank of nonrevolving credit line to the Company on the following material terms and conditions:

The transaction's subject – opening by Volgo-Vyatskyi bank of RF Savings Bank of non-revolving credit line to the Company;

Credit line limit - 210 000 000 (Two hundred ten million) rubles;

Interest rate – 11,5% p.p.a.;

Term of credit – 1,5 year.

The contract became effective on 26.05.2005.

The contract of pledge of fixed assets (equipment) concluded by and between Volgo-Vyatskyi bank of RF Savings Bank and the Company on the following material terms and conditions:

The transaction's subject – provision by the Company in pawn to Volgo-Vyatskyi bank of RF Savings Bank of the property to guarantee the performance of obligation under the contract of opening of nonrevolving credit line;

Secured obligation - opening by Volgo-Vyatskyi bank of RF Savings Bank of nonrevolving credit line to the Company with the limit of 210 000 000 (Two hundred ten million) rubles, at the rate of 11,5% p.p.a., the term of credit - 1,5 year;

The subject of pledge – equipment;

Collateral value of the subject of pledge - 216 084 365,59 (Two hundred sixteen million eighty four thousand three hundred sixty five) rubles 59 kopecks.

The contract became effective on 26.05.2005.

May 31, 2005 (minutes № 32)

The Board of directors made the decisions on:

The approval of transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, - additional agreement № 5 to contract № 191/760-04 of 09.06.2004 and additional agreement № 2 to contract of pledge № 152 of 09.06.2004r concluded by and between Volgo-Vyatskyi bank of RF Savings Bank and the Company on the following terms and conditions:

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 5 to contract of opening nonrevolving credit line № 191/760-04 of 09.06.2004, being concluded by and between the Company and Volgo-Vyatskyi bank of RF Savings Bank on the following material terms and conditions:

The transaction's subject – reduction of the amount of security, stipulated by the contract, of the first tranche to the sum of 413 825 874, 29 rubles (Four hundred thirteen million eight hundred twenty five thousand eight hundred seventy four) rubles 29 kopecks.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 2 to contract of fixed assets pledge № 152 of 09.06.2004, being concluded by and between the Company and Volgo-Vyatskyi bank of RF Savings Bank on the following material terms and conditions:

The transaction's subject – change of the subject of pledge and its collateral value, and namely:

- exclude from the structure of pledge subject one unit of equipment (identification number 425052) of the collateral value of 219 648, 44 rubles;
- introduce into the structure of pledge subject one unit of equipment (identification number 426090) of the collateral value of 219 874,75 rubles;
- define the collateral value of the pledge subject in the amount of 413 825 874,29 rubles (Four hundred thirteen million eight hundred twenty five thousand eight hundred seventy four) rubles 29 kopecks.

Additional agreement became effective on 16.06.2005.

The approval of transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, - additional agreement № 2 to contract № 292/1 of 09.02.2004 and additional agreement № 2 to contract of pledge № 37 of 09.02.2004, being concluded by and between Volgo-Vyatskyi bank of RF Savings Bank and the Company on the following terms and conditions:

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 2 to contract of opening nonrevolving credit line № 292/1 of 09.02.2004, being concluded by and between the Company and Volgo-Vyatskyi bank of RF Savings Bank on the following material terms and conditions:

The transaction's subject – reduction of the amount of security stipulated by the contract to the sum of 733 047 281,38 rubles (Seven hundred thirty three million forty seven thousand two hundred eighty one) ruble 38 kopecks.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 2 to contract of fixed assets pledge № 37 of 09.02.2004, being concluded by and between the Company and Volgo-Vyatskyi bank of RF Savings Bank on the following material terms and conditions:

The transaction's subject – change of the subject of pledge and its collateral value, and namely:

- exclude from the structure of pledge subject the equipment with identification numbers: 422980, 0402005257, 0402005238, 0402005217, 0402005250 of the collateral value of 21 731 854,56 rubles;

- introduce into the structure of pledge subject the equipment with identification numbers: 425040, 426225, 0402006828, 0402006827, 0402007708, 0402030228 of the collateral value of 21 842 670,8 rubles;

- define the collateral value of the pledge subject in the amount of 733 047 281,38 rubles (Seven hundred thirty three million forty seven thousand two hundred eighty one) ruble 38 kopecks.

Additional agreement became effective on 16.06.2005.

Approval of related party transaction, and namely: conclusion of purchase and sale contract by and between OJSC "VolgaTelecom" and CJSC "NCC" for acquisition of equipment for the branch in the Republic of Mariy El on the following material terms and conditions:

The transaction's subject – acquisition of cellular radiotelephone communication equipment – cellular mobile communication system of GSM 900/1800 standard as per Supplement №1.

The transaction's price - 4 075 759 (Four million seventy five thousand seven hundred fifty nine) rubles, including VAT in the amount of 621 726 (Six hundred twenty one thousand seven hundred twenty six) rubles.

The first payment in the amount of 25% (Twenty five percent) of the Contract value, and namely 1 018 939,75 (One million eighteen thousand nine hundred thirty nine) rubles 75 kopecks, including 18% VAT - 155 431,49 rubles should be paid by the Buyer within 20 (Twenty) banking days since the date of this Contract signature.

Final payment in the amount of 75% (Seventy five percent) of the Contract value, and namely 3 056 819,25 (Three million fifty six thousand eight hundred nineteen) rubles 25 kopecks, including 18% VAT - 466 294,46 rubles should be paid by the Buyer in three equal installments.

- The second payment – within 20 (Twenty) banking days since the signature of the Equipment delivery-acceptance certificate;

- The third payment - within 30 (Thirty) calendar days since the date of the first payment;

- The fourth payment - within 60 (Sixty) calendar days since the date of the first payment.

The delivery is made by one shipment within the period not later than 10 (Ten) calendar days calculated since the date of the Contract signature.

The Seller delivers the Equipment by motor vehicles. All the risks of spoilage, damage or loss of the Equipment related to the Equipment's transit and delivery to the site of location: Russian Federation, 424 000, the Republic of Mariy El, Yoshkar-Ola town, Sovetskaya str., 138 are born by the Seller till the time of the equipment transfer to the Buyer.

The Equipment should be inspected as regards its completeness, the quantity and the lack of external damages and defects by the Buyer in the presence of authorized representative of the Seller within 3 (Three) business days since the Equipment delivery to the site.

If there are no claims to the Seller as regards the packing, physical configuration, quantity, completeness of the Equipment delivered by the Seller, then the Buyer and the Seller should sign the Equipment delivery-acceptance certificate not later than 10 (Ten) business days since the date of the Equipment delivery to the site.

The time of the Equipment transfer to the Buyer is the date of signature of the Equipment delivery-acceptance certificate.

All the risks of spoilage, damage or loss of the Equipment are born by the Buyer since the date of signature of the Equipment delivery-acceptance certificate.

The equipment warranty period is 12 months since the signature by the Parties of the Equipment delivery-acceptance certificate.

If during the warranty period there are detected the faults, then the replacement of the Equipment defective parts is made by the Seller free of charge within the period not exceeding

60 calendar days since the receipt of the Equipment defective parts. All transport expenses in connection with the Equipment repair within the warranty, including the expenses for in transit insurance are born by the Seller.

For the delay of payment for the Equipment the Buyer pays to the Seller the penalty in the amount of 1/365 RF Central Bank refinancing rate, but not more than 10% of unpaid cost of the Equipment for each day of payment delay.

This Contract becomes effective since its signature by authorized representatives of both the parties and is valid till full performance of the Parties of their obligations.

The Contract became effective on 01.09.2005.

Approval of related party transaction, and namely: the contract between Open Joint Stock Company “VolgaTelecom” and non-government infant educational school “Kindergarten № 13” on the following material terms and conditions:

Settle the following property with the right of operating management on non-government infant educational school “Kindergarten № 13”: the building of the kindergarten with building extensions and accessories (letters A, A1-a4, Г1, Г2, Г3, cellar, I-VIII), located at the address: Ulyanovsk city, Matrosov str., 14. (Certificate of state registration of right of ownership of 23.01.2001. Series AC № 113315) of the cost of 454 183 (Four hundred fifty four thousand one hundred eighty three) rubles.

Approve related party transaction, and namely: the contract between OJSC “VolgaTelecom” and non-government infant educational school “Kindergarten № 13” (hereinafter – the contract) on the following material terms and conditions:

The transaction’s subject:

– Transfer to the School for operating management of the property as per Supplement № 1 to the contract with execution of transfer act within 10 days since the date of the contract conclusion;

– Financing of the School in accordance with the Promoter’s approved annual estimate of expenditures.

The contract’s validity term – the contract becomes effective since the date of its signature and is valid till the time of the School’s activity termination or transfer of right of ownership to the School to other person/entity.

The contract became effective on 16.06.2005.

Since the time of the contract effectiveness, the following contracts concluded earlier between the Company and non-government infant educational school “Kindergarten № 13” cease to be effective:

- of 18.12.1995;
- of 26.12.2001 № 45;
- of 26.12.2001 № 46.

June 15, 2005 (minutes № 34)

The Board of directors made the decision on:

Approval of transaction with Non-commercial Partnership “Center of investigation of problems of telecommunications development”, the transaction as per chapter XI of Federal Law “On joint-stock companies” being a related party transaction, and namely: the contract for OJSC “VolgaTelecom” transfer of target membership fees on the following material terms and conditions:

The contract for transfer in 2005 by OJSC “VolgaTelecom” of target membership fees to Non-commercial Partnership “Center of investigation of problems of telecommunications development” in the amount of 161 232 500 (One hundred sixty one million two hundred thirty two thousand five hundred) rubles, as per the procedure defined in Supplement №1 to the contract.

The contract became effective on 16.05.2005.

On June 27, 2005 (minutes № 35) the Board of directors made the decisions on:

The approval of transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, and namely: the contract of opening by Volgo-Vyatskyi bank of RF Savings Bank of nonrevolving credit line to the Company and the contract of fixed assets pledge being concluded by and between Volgo-Vyatskyi bank of RF Savings Bank and the Company on the following material terms and conditions:

The contract of opening by Volgo-Vyatskyi bank of RF Savings Bank of nonrevolving credit line to the Company on the following material terms and conditions:

The transaction's subject – opening by Volgo-Vyatskyi bank of RF Savings Bank of non-revolving credit line to the Company;

Credit line limit - 150 000 000 (One hundred fifty million) rubles;

Interest rate – 11,5% p.p.a.;

Term of credit – 1,5 year.

The contract became effective on 08.07.2005.

The contract of fixed assets (equipment) pledge being concluded by and between Volgo-Vyatskyi bank of RF Savings Bank and the Company on the following material terms and conditions:

The transaction's subject – provision by the Company in pawn to Volgo-Vyatskyi bank of RF Savings Bank of the property to guarantee the performance of obligation under the contract of opening of nonrevolving credit line;

Secured obligation - opening by Volgo-Vyatskyi bank of RF Savings Bank of nonrevolving credit line to the Company with the limit of 150 000 000 (One hundred fifty million) rubles, at the rate of 11,5% p.p.a., the term of credit - 1,5 year;

The subject of pledge – the equipment as per Supplement 1 to the contract of pledge;

The collateral value of the pledge subject – 154 319 975,77 (One hundred fifty four million three hundred nineteen thousand nine hundred seventy five) rubles 77 kopecks;

The pledged property is with the Pledger.

The contract became effective on 08.07.2005.

The approval of transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, and namely: the contract of opening by Volgo-Vyatskyi bank of RF Savings Bank of nonrevolving credit line to the Company being concluded by and between Volgo-Vyatskyi bank of RF Savings Bank and the Company on the following material terms and conditions:

The transaction's subject – opening by Volgo-Vyatskyi bank of RF Savings Bank of non-revolving credit line to the Company with one-time fee without security in the form of property pledge;

Credit line limit - 375 000 000 (Three hundred seventy five million) rubles;

Interest rate – 10% p.p.a.;

Term of credit – 150 days.

The contract became effective on 08.08.2005.

August 15, 2005 (minutes № 4)

The Board of directors made the decisions on:

Approval of related party transaction, and namely: the contract of service by and between OJSC “Svyazintek” and OJSC “VolgaTelecom”, OJSC “Dalsvyaz”, OJSC “Rostelecom”, OJSC “North-West Telecom”, OJSC “Sibirtelecom”, OJSC “Uralsvyazinform”, OJSC “Central tele-

graph”, OJSC “CenterTelecom”, OJSC “Southern Telecom Company” on the following material terms and conditions:

The transaction’s subject – the Customer instructs and the Contractor takes upon itself to provide services of billing transformation program management (hereinafter – “Program”), the objective of which is implementation and putting into commercial service of unified billing solution for the Customer, and namely:

Definition of the procedure of the Program’s work execution by preparing Master-plan and new wording of the Program’s Charter;

Coordination of the Program’s works, including: planning and management of works at the level of the Program, between which are: formation and management of the Program’s command, management of communications in the Program, management of risks in the Program, management of changes in the Program, quality management in the Program, control over execution of the Program’s plans, maintaining the works plans in actual status, the documents for the Program’s management, control over the quality of works executed under the Program, execution of scheduled arrangements and meetings envisaged by the Program’s documents, preparation of reporting envisaged by the Program, excluding the documents prepared by the contractors; management by the Program’s problems and risks (keeping the log of open risks and problems, preparation of proposals for reduction of risks and for solution of problems, control over adopted decisions execution); management by the Program’s documentation (record keeping, distribution of documents, keeping the history of change and coordination of documents, keeping the archive of the Program’s documents).

The procedure of services rendering – the services under the contract are rendered in stages:

1-st stage: Determination of the procedure of the Program’s works execution by preparing Master-plan and new wording of the Program’s Charter; the date of services rendering: since the date of the contract signature till September 25, 2005;

2-nd stage: Coordination of works under the Program; the date of services rendering: since the date of the contract signature till December 25, 2005.

The transaction’s price – the cost of services amounts to 29 000 000 rubles, VAT inclusive:

1-st stage – 14 500 000 rubles, VAT inclusive;

2-nd stage – 14 500 000 rubles, VAT inclusive.

The Customer (persons acting on Customer’s side) makes the payment of services in the following amounts:

OJSC “VolgaTelecom” pays 3 770 000 rubles, VAT inclusive;

OJSC “Dalsvyaz” pays 1 160 000 rubles, VAT inclusive;

OJSC “Rostelecom” pays 5 510 000 rubles, VAT inclusive;

OJSC “North-West Telecom” pays 3 190 000 rubles, VAT inclusive;

OJSC “Sibirtelecom” pays 3 190 000 rubles, VAT inclusive;

OJSC “Uralsvyazinform” pays 3 190 000 rubles, VAT inclusive;

OJSC “Central telegraph” pays 580 000 rubles, VAT inclusive;

OJSC “CenterTelecom” pays 5 220 000 rubles, VAT inclusive;

OJSC “Southern Telecom Company” pays 3 190 000 rubles, VAT inclusive.

The payment of services under the contract is made by installments: 30% of the services cost are paid in advance after the contract’s signature, 30% of the services cost are paid after the acceptance of services of the first stage, the balanced 40% of the services cost are paid after the acceptance of services of the second stage.

The contract became effective on 15.08.2005.

Approval of related party transaction – additional agreement № 2 to agency contract № ТД-8-04 of March 31, 2004, concluded by and between Open Joint Stock Companies “North-West Telecom”, “VolgaTelecom”, Central Telecom”, “Southern Telecom Company”, “Dalsvyaz”, “Uralsvyazinform”, “Sibirtelecom” acting on the Principal’s side and Non-commercial

Partnership “Center of investigation of problems of telecommunications development” on the following material terms and conditions:

The transaction’s subject – set off of funds formed with the Agent due to the difference between the sum in rubles received from the Principal and recalculated by the contractor on account of payments due to payment by the Principal to the Agent under additional agreement № 1 to agency contract №ТД-8-04 of March 31, 2004;

The amount due to set off on account of future payments of the Principal - 5 050 812,62 rubles;

The money due to set off on account of the Company’s future payments - 725 843,04 rubles.

The additional agreement became effective on 22.08.2005.

Approval of related party transaction – agency contract being concluded by and between Open Joint Stock Companies “North-West Telecom”, “VolgaTelecom”, Central Telecom”, “Southern Telecom Company”, “Dalsvyaz”, “Uralsvyazinform”, “Sibirtelecom” acting on the Principal’s side and Non-commercial Partnership “Center of investigation of problems of telecommunications development” on the following material terms and conditions:

The transaction’s subject – the Agent takes upon itself the obligation to conclude on its own behalf and at the expense of the Principal the contract of services/works of management of ERP implementation program in the companies acting on the Principal’s side;

The size of the agency fee under the contract upon the whole – US\$160 650, VAT inclusive, at RF Central Bank rate as of the day of payment;

The size of the Agent’s expenses under the contract upon the whole – US\$5 355 000, VAT inclusive, at RF Central Bank rate as of the day of payment;

The amount due to payment by the Company:

- as regards to agency fee payment – US\$22 950, VAT inclusive, at RF Central Bank rate as of the day of payment;

- as regards to the Agent’s expenses payment – US\$765 000, VAT inclusive, at RF Central Bank rate as of the day of payment;

The period of the Agent’s report presentation – 30 business days since date of the acceptance of the Contractor’s works;

The period of services rendering/works execution under the contract being concluded by the Agent to perform the instructions – 172 days.

The contract became effective on 22.08.2005.

August 19, 2005 (minutes № 5)

The Board of directors made the decisions on:

Approval of related party transaction, and namely: the contract of purchase and sale of shares by and between Open Joint Stock Company “Information technologies of communication” (OJSC “Svyazintek”) and OJSC “VolgaTelecom” on the following material terms and conditions:

The transaction’s subject – the Issuer takes upon itself to transfer to the Shareholder, and the Shareholder takes upon itself to accept and to pay for ordinary, registered, paperless shares of Open Joint Stock Company “Information technologies of communication” of the second issue of the face value of 10 (Ten) rubles per a share in the quantity of 1 486 082 (One million four hundred eighty six thousand eighty two) shares. State registration number of the securities issue: 1-01-10154-A-001 D.

The shares transaction price is 14 860 820 (Fourteen million eight hundred sixty thousand eight hundred twenty) rubles. The Shareholder within five calendar days since the date of the contract conclusion pays for the shares in full amount by transfer by clearing of money to the Issuer’s settlement account. The date of payment is the date of the money entering on the Issuer’s settlement account.

Not later than five calendar days since the date of payment in full for the shares the Issuer sends to the Issuer's register holder duly executed transfer order about making the entry into the system of register keeping about the transfer of shares as a result of purchase and sale.

The shares are considered to be transferred to the Shareholders since the time of making in the system of register keeping of the appropriate entry in the Shareholder's customer account.

The Issuer in case of violation of the time of shares payment is in the right to send to the Shareholder written notification about the contract cancellation and since the date of sending this notification the contract is considered to be cancelled.

The contract became effective on 22.08.2005.

Approval of related party transaction, and namely: the contract of equipment rent with further passing to the ownership, being concluded by and between OJSC "VolgaTelecom" and OJSC "TATINCOM-T" on the following material terms and conditions:

The transaction's subject – OJSC "VolgaTelecom" (Lessor) provides to OJSC "TATINCOM-T" (Lessee) the equipment of cellular radiotelephone communication as per Supplement №1 with further passing to the ownership.

The transaction's price – monthly rental fee for provided equipment in the amount of 647 732,42 (Six hundred forty seven thousand seven hundred thirty two) rubles 42 kopecks, inclusive of VAT (18%) 98 806,64 (Ninety eight thousand eight hundred six) rubles 64 kopecks, and the total value of rental fee for the equipment which is the repurchase price in the amount of 25 909 296.58 rubles, including 18% VAT - 3 952 296.58 rubles, as per the calculation provided in Supplement №2, which is an integral part of the Contract.

The schedule of payments is provided in Supplement №2 to the Contract.

If the provisions of items 5.1., 5.3. of the Contract are fulfilled, upon the expiry of the rent period the Equipment is passed to the Lessee's ownership, which is executed by the appropriate protocol.

In case of early termination of the Contract, for the delay of the Equipment return or its component parts during the period set forth by the Contract the Lessee pays to the Lessor by its request the penalty in the amount of 0,1% for each day of delay.

For the delay of rental fee transfer the Lessee by written request of the Lessor pays the penalty in the amount of 0,1% of the amount outstanding for each day of delay.

When the Equipment is returned in case of early termination of the Contract and the Equipment is damaged by the Lessee's fault or it is not complete, the Lessee, apart from compensation of value of missing items and expenses for repairs, pays by the Lessor's request the penalty in the amount of 10% of the cost of damaged (incomplete) Equipment.

The Lessee bears property accountability for the safety of the Equipment transferred for use. In case of Equipment destruction (loss) by the Lessee's fault, the Lessee pays its balance-sheet value within 10 days since the time of its destruction (loss).

For nonobservance of the repairs time (over 30 days since the detection of defect) of the equipment or the replacement of defective equipment the Lessee pays to the Lessor by its written request the penalty in the amount of 0,1% of the Equipment value subject to repairs or replacement for each day of delay.

The Lessor is responsible for the delay in the Equipment transfer to the Lessee, or for the Equipment transfer without the documents required for its operation for the reasons within the Lessor's control in the amount of 0,1% of the amount of monthly rental fee for each day of delay specified in item 3.1. of the Contract.

The Lessor is responsible for the defects of the transferred Equipment in the amount of 0,1% of the amount of monthly rental fee for each day of delay till the time of such defects removal.

Validity term – the Contract becomes effective since its signature and is valid till the Parties' full performance of their obligations under the Contract.

The Contract became effective on 18.10.2005.

Approval of related party transaction, and namely: the contract of non-residential premises rent being concluded by and between OJSC "VolgaTelecom" and LLC "Vyatka-Page" on the following material terms and conditions:

Transaction subject – OJSC "VolgaTelecom" (Lessor) transfers to LLC "Vyatka-Page" (Lessee) non-residential premises being OJSC "VolgaTelecom" property for rent; the total area of the premises is 1 140,51 m², the premises are located at the following addresses:

Kirov city, Molodoi Gvardii str., 72, of total area of 82,2 m²;

Kirov city, Vorovskyi str., 102, of total area of 114,7 m²;

Kirov city, Oktyabrskiy avenue, 115, of total area of 167,2 m²;

Kirov city, Stroiteley avenue, 50, of total area of 45,03 m²;

Kirov oblast, Leninskyi district, settlement Lyangasovo, Sportivnaya str., 14, of total area of 76,6 m²;

Kirov city, Novovyatskiy district, Sovetskaya str., 41, of total area of 122,89 m²;

Kirov city, Volodarskiy str., 171, of total area of 81,5 m²;

Kirov city, settlement Raduzhnyi, Novaya str., 9, of total area of 34,85 m²;

Kirov city, settlement Kostino, Parkovaya str., 1, of total area of 11,3 m²;

Kirov city, Moskovskaya str., 20, of total area of 404,24 m².

The transaction's price – 1 954974,69 rubles per year, exclusive of VAT (as per supplement №11).

OJSC "VolgaTelecom" may change the size of rental fee unilaterally but not more than once in a year.

The contract's validity term – the contract is concluded for the uncertain term. The contract becomes effective since the date of its signature by the parties. The contract's terms and conditions are applicable to relationships that occurred between the parties since 01.04.2005.

The contract became effective on 01.09.2005.

The approval of transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, - additional agreement № 1 to contract № 23 of 01.03.2005 and additional agreement № 1 to contract of pledge № 40 of 01.03.2005, being concluded by and between Volgo-Vyatskiy bank of RF Savings Bank and the Company on the following material terms and conditions:

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 1 to contract of opening of non-revolving credit line № 23 of 01.03.2005, being concluded by and between the Company and Volgo-Vyatskiy bank of RF Savings Bank on the following material terms and conditions:

The transaction's subject – reduction of envisaged by the contract size of balance sheet value of security to the sum in the amount of 646 898 641,37 (Six hundred forty six million eight hundred ninety eight thousand six hundred forty one) ruble 37 kopecks.

The additional agreement became effective on 23.08.2005.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 1 to contract of fixed assets pledge № 40 of 01.03.2005, being concluded by and between the Company and Volgo-Vyatskiy bank of RF Savings Bank on the following material terms and conditions:

The transaction's subject – change of pledge subject, and namely:

- exclude from the structure of pledge subject two units of equipment (identification number 0402025410) of the collateral value of 243 326, 00 rubles and (identification number

0402025412) of the collateral value of 243 326, 00 rubles, of the total collateral value of 486 652 rubles;

- introduce into the structure of pledge subject two units of equipment (identification number 0402030137) of the collateral value of 203 676, 49 rubles and (identification number 0402030255) of the collateral value of 282 975, 51 rubles, of the total collateral value of 486 652 rubles.

The additional agreement became effective on 23.08.2005.

The approval of transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, - additional agreement № 3 to contract № 292/1 of 09.02.2004 and additional agreement № 3 to contract of pledge № 37 of 09.02.2004, being concluded by and between Volgo-Vyatskyi bank of RF Savings Bank and the Company on the following material terms and conditions:

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 3 to contract of opening non-revolving credit line № 292/1 of 09.02.2004, being concluded by and between the Company and Volgo-Vyatskyi bank of RF Savings Bank on the following material terms and conditions:

The transaction's subject – reduction of envisaged by the contract of pledge of size of the property value to the sum in the amount of 733 046 623,60 (Seven hundred thirty three million forty six thousand six hundred twenty three) rubles 60 kopecks.

The additional agreement became effective on 23.08.2005.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 3 to fixed assets pledge contract № 37 of 09.02.2004, being concluded by and between the Company and Volgo-Vyatskyi bank of RF Savings Bank on the following material terms and conditions:

The transaction's subject – change of pledge subject and of its collateral value, and namely:

- exclude from the structure of pledge subject three units of equipment (identification number 0402007151) of the collateral value of 1 281 784,00 rubles, (identification number 258) of the collateral value of 5 453 685,79 rubles and (identification number 277) of the collateral value of 7 908 875,10 rubles, of the total collateral value of 14 644 344,89 rubles;

- introduce into the structure of pledge subject ten units of equipment (identification number 0402028559) of the collateral value of 159 890,80 rubles, (identification number 0402030125) of the collateral value of 150 431,18 rubles, (identification number 0402030212) of the collateral value of 799 929,47 rubles, (identification number 6343) of the collateral value of 2 859 674,42 rubles, (identification number 6352) of the collateral value of 1 510 515,15 rubles, (identification number 6356) of the collateral value of 2 123 383,21 rubles, (identification number 6423) of the collateral value of 2 508 747,45 rubles, (identification number 6421) of the collateral value of 1 814 211,75 rubles, (identification number 6350) of the collateral value of 1 015 138,56 rubles and (identification number 6333) of the collateral value of 1 701 765,12 rubles, of the total collateral value of 14 643 687,11 rubles;

- replace identification numbers of four units of equipment without changing the equipment collateral value:

Identification number "456147**Г" is to be replaced by number "456147***Г",

Identification number "58.14С" is to be replaced by number "58.14*С",

Identification number "400006М" is to be replaced by number "400006*М",

Identification number “420013Г” is to be replaced by number “420013*Г”;

- define the collateral value of the pledge subject in the amount of 733 046 623 (Seven hundred thirty three million forty six thousand six hundred twenty three) rubles 60 kopecks.

The additional agreement became effective on 23.08.2005.

The approval of transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company’s balance sheet assets defined as per the data of its accounting statement as of the last reporting date, - additional agreement № 6 to contract № 191 of 09.06.2004 and additional agreement № 3 to contract of pledge № 152 of 09.06.2004, additional agreement № 3 to contract of pledge № 172 of 06.07.2004; additional agreement № 2 to contract of pledge № 210 of 05.08.2004, additional agreement № 2 to contract of pledge № 239 of 01.09.2004, being concluded by and between Volgo-Vyatskyi bank of RF Savings Bank and the Company on the following material terms and conditions:

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company’s balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 6 to contract of opening non-revolving credit line № 191 of 09.06.2004, being concluded by and between the Company and Volgo-Vyatskyi bank of RF Savings Bank on the following material terms and conditions:

The transaction’s subject – reduction of envisaged by the contract of the size of security of the first tranche to the sum in the amount of 413 817 168,55 rubles (Four hundred thirteen million eight hundred seventeen thousand one hundred sixty eight) rubles 55 kopecks;

The transaction’s subject – reduction of envisaged by the contract of the size of security of the second tranche to the sum in the amount of 570 242 273,49 rubles (Five hundred seventy million two hundred forty two thousand two hundred seventy three) rubles 49 kopecks;

The transaction’s subject – reduction of envisaged by the contract of the size of security of the third tranche to the sum in the amount of 206 789 299,95 rubles (two hundred six million seven hundred eighty nine thousand two hundred ninety nine) rubles 95 kopecks;

The transaction’s subject – reduction of envisaged by the contract of the size of security of the fourth tranche to the sum in the amount of 339 152 176,49 rubles (three hundred thirty nine million one hundred fifty two thousand one hundred seventy six) rubles 49 kopecks.

The additional agreement became effective on 17.11.2005.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company’s balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 3 to fixed assets pledge contract № 152 of 09.06.2004, being concluded by and between the Company and Volgo-Vyatskyi bank of RF Savings Bank on the following material terms and conditions:

The transaction’s subject – change of pledge subject and of its collateral value, and namely:

- exclude from the structure of pledge subject four units of equipment (identification numbers 426108, 426109, 11 44320000, TT420196, VII-00370) of the total collateral value of 8 987 412,22 rubles;

- change the equipment name (identification number OIQ002458);

- change the location of twenty one unit of equipment (identification numbers 1242600000, 1142996338, 1144202500, 1142996337, 1642191985, 1143043025, 1142996336, 1642180700, 1144324901, 1142141396, 1142412701, 1142996332, 1142996333, 1142996312, 1143994535, 421311, VII-01860, IIIA924477, KY440559, VII-03314, OIQ002458 - relocation) without changing the collateral value;

- introduce into the structure of pledge subject twelve units of equipment (identification numbers 426108, 426109, 427280, 1144320000, TT420196, VII-04897, VII-04895, VII-04894, VII-04893, VII-04906, 0401002006,) of the total collateral value of 8 978 706,48 rubles;

- define the collateral value of the pledge subject in the amount of 413 817 168,55 (Four hundred thirteen million eight hundred seventeen thousand one hundred sixty eight) rubles 55 kopecks.

The additional agreement became effective on 23.08.2005.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 3 to fixed assets pledge contract № 172 of 06.07.2004, being concluded by and between the Company and Volgo-Vyatskyi bank of RF Savings Bank on the following material terms and conditions:

The transaction's subject – change of pledge subject and of its collateral value, and namely:

- exclude from the structure of pledge subject three units of equipment (identification numbers 31:671.2Г, 31:671.4Г, 402007198 – the sales are scheduled) of the total collateral value of 886 060,01 rubles;

- introduce into the structure of pledge subject two units of equipment (identification numbers - 0402026965, 0402028615) of the total collateral value of 881 196,67 rubles;

- change the identification numbers with six units of the equipment without changing the collateral value:

Change the number of inventory card “43:000547Г” to number “43:000547***Г”,

Change the number of inventory card “5:480001.1Г” to number “480001.1*Г”,

Change the number of inventory card “H002966” to number “440622.1M”,

Change the number of inventory card “H002967” to number “706Г”,

Change the number of inventory card “H002955” to number “480020*M”,

Change the number of inventory card “H002919” to number “071773П”;

- change the location of fourteen units of equipment (identification numbers - 23:247C, 41.3.48077, 41.3.48079, 42.3.34_1, 44.2.713, 42.4.2558, 42.4.2583, 42.4.2584, 42.4.2585, 44.4.5292, 44.4.4174, 42.4.2760, 42.4.2761, 42.4.2762 - relocation) without changing the collateral value.

- define the collateral value of the pledge subject in the amount of 570 242 273 (Five hundred seventy million two hundred forty two thousand two hundred seventy three) rubles 49 kopecks.

The additional agreement became effective on 23.08.2005.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 2 to fixed assets pledge contract № 210 of 05.08.2004, being concluded by and between the Company and Volgo-Vyatskyi bank of RF Savings Bank on the following material terms and conditions:

The transaction's subject – change of pledge subject and of its collateral value, and namely:

- exclude from the structure of pledge subject four units of equipment (identification numbers 42-020006996, 42-020006966, 42-020006969, 42-020006974 - upgrading) of the total collateral value of 765 629,04 rubles;

- change the location of one unit of equipment due to relocation without changing the collateral value;

- introduce into the structure of pledge subject three units of equipment (identification numbers 42-020006966, 42-020006969, 42-020006974) of the total collateral value of 752 144,45 rubles;

- define the collateral value of the pledge subject in the amount of 206 789 299,95 (two hundred six million seven hundred eighty nine thousand two hundred ninety nine) rubles 95 kopecks.

The additional agreement became effective on 23.08.2005.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 2 to fixed assets pledge contract № 239 of 01.09.2004, being concluded by and between the Company and Volgo-Vyatskyi bank of RF Savings Bank on the following material terms and conditions:

The transaction's subject – change of pledge subject and of its collateral value, and namely:

- exclude from the structure of pledge subject one unit of equipment (identification number 447380 – tear down) of the collateral value of 50 520 523,64 rubles;

- introduce into the structure of pledge subject three units of equipment (identification numbers – 42-447380, 0402028618, 0402030228) of the total collateral value of 50 519 071,65 rubles;

- define the collateral value of the pledge subject in the amount of 339 152 176 (Three hundred thirty nine million one hundred fifty two thousand one hundred seventy six) rubles 49 kopecks.

The additional agreement became effective on 23.08.2005.

October 3, 2005 (minutes № 8)

The Board of directors made the decisions on:

Approval of related party transaction, and namely: underwriter's services Contract being concluded by and between OJSC "VolgaTelecom" and OJSC JSCB "Svyaz-Bank" on the following material terms and conditions:

The transaction's subject – OJSC "VolgaTelecom" (Issuer) instructs OJSC JSCB "Svyaz-Bank" (Agent), and the Agent takes upon itself to render the Issuer the services as the Issuer's Agent to float the bonds and to perform on its behalf on the instructions of and at the expense of the Issuer legal and other acts required for the purposes of making with third parties the transactions which may accompany or be directly or indirectly necessary for the Agent's floatation of bonds in accordance with terms and conditions of the Contract.

The start of the services rendering is the date of the Contract signature, and the end of the services rendering is the date of signature of Final Protocol of rendered services as per clause 4 of the Contract.

The transaction's price is 1000 (One thousand) rubles, exclusive of VAT. VAT is paid in excess of the Agent's fee at the rate stipulated by legislation on the date of signature of rendered services Protocol.

The Issuer pays the fee to the Agent as per the procedure envisaged by item 4.2. of the Contract:

The first part of the fee in the amount of 500 (Five hundred) rubles increased by the sum of VAT – within 5 (Five) business days since the date of the invoice receipt issued by the Agent after the Company's signature of Interim protocol of rendered services as per item 4.3. of the Contract. The payment is made by the transfer of the appropriate amount to the Agent's corresponding account specified in clause 12 of the Contract or to the Agent's bank details specified in the issued invoice;

The second part of the fee in the amount of 500 (Five hundred) rubles increased by the sum of VAT – within 5 (Five) business days since the date of the invoice receipt issued by the Agent

after the Company's signature of Final Protocol of rendered services as per item 4.3. of the Contract. The payment is made by the transfer of the appropriate amount to the Agent's corresponding account specified in clause 12 of the Contract or to the Agent's bank details specified in the issued invoice.

The Issuer's obligations of payment to the Agent of any sums under the Contract are considered to be performed in the appropriate volume at the time when these sums are placed at the Agent's account in accordance with details specified in clause 12 of the Contract or bank details specified by the Agent in the issued invoice.

For the delay in performance of obligations to pay to the Agent the fee in accordance with item 4.2. the Issuer pays to the Agent liquidated damages in the form of penalty fee in the amount of 0,035% (Thirty five thousandth) accrued on overdue amount for each calendar day of payment delay.

In case of non-performance of its obligations to transfer to the Issuer the money from the Bonds floatation as envisaged by the Contract, the Agent pays to the Issuer the penalty fee in the amount of 0,035% (Thirty five thousandth) of the amount of non-transferred money of the volume of actually floated Bonds for each day of delay.

Validity term – the Contract becomes effective since the date of its signature by authorized representatives of the Parties and is valid till full performance by the Parties of their obligations under this Contract, if its validity is not early terminated in accordance with clause 6 of the Contract.

The Contract became effective on 07.10.2005.

Approval of related party transaction, and namely: Contract of bonds floatation services being concluded by and between OJSC "VolgaTelecom" and OJSC JSCB "Svyaz-Bank" on the following material terms and conditions:

The transaction's subject – OJSC JSCB "Svyaz-Bank" (Underwriter) renders to OJSC "VolgaTelecom" (Issuer) the services of the Bonds floatation by public offering at the Stock Exchange, including the Underwriter's provision of putting up the bids for the Bonds purchase in the quantity equal to the Volume of the Underwriter's subscription in accordance with terms and conditions and the procedure defined by this Contract, and also provides consulting assistance on the issues related to the Bonds floatation and conducts marketing research of securities market.

The start of the services rendering is the date of the Contract signature, and the end of the services rendering is the date of signature of Final Protocol of rendered services as per clause 4 of the Contract.

The transaction's price is 21 200 000 (Twenty one million two hundred thousand) rubles, VAT exclusive. VAT is paid in excess of the Underwriter's fee at the rate stipulated by legislation on the date of signature of rendered services Protocol.

OJSC "VolgaTelecom" tender committee, which was established to select the lead arranger (syndicate of participants which includes the lead arranger, basic co-arrangers, underwriter, basic co-underwriters) of OJSC "VolgaTelecom" bonded loan issue, on August 5, 2005 determined the syndicate of the following participants: the lead arranger and the underwriter - OJSC JSCB "Svyaz-Bank", co-arranger and co-underwriter – JSCB "Promsvyazbank" (CJSC) and OJSC "Web-invest Bank".

The Issuer pays the fee to the Underwriter as per the procedure envisaged by item 4.2. of the Contract:

The first part of the fee in the amount of 11 660 000 (Eleven million six hundred sixty thousand) rubles increased by the sum of VAT, on the basis of the invoice issued by the Underwriter after the Issuer's acceptance of Interim protocol of rendered services as per item 4.4. of the Contract by the transfer of the appropriate amount to the Underwriter's details specified in clause 10 of the Contract or to the bank details specified by the Underwriter in the issued invoice;

The second part of the fee in the amount of 9 540 000 (Nine million five hundred forty thousand) rubles increased by the sum of VAT, on the basis of the invoice issued by the Underwriter after the Issuer's acceptance of Final protocol of rendered services as per item 4.4. of the Contract by the transfer of the appropriate amount to the Underwriter's details specified in clause 10 of the Contract or to the bank details specified by the Underwriter in the issued invoice.

The fee is due to payment to the Underwriter in full amount only in case the Underwriter's performance in full of its obligations as per item 3.1.1 of the Contract.

For the delay in performance of obligations to pay the fee to the Underwriter the Issuer pays at the Underwriter's request liquidated damages in the form of penalty fee in the amount of 0,04 % (Four hundredth), accrued on overdue amount for each calendar day of the payment delay.

For non-performance and/or performance not in full of its obligations the Underwriter pays at the Issuer's request the liquidated damages in the form of fine in the amount of 1% of the face value of the bonds that remained unplaced. The volume of placed bonds is determined on the basis of the Exchange register. Also the Underwriter compensates the Issuer for all the losses caused by incomplete floatation of the Bonds, but not more than 0,4% of the loan amount.

Validity term – the Contract becomes effective since its signature by the Parties and is valid till the Parties' performance in full of their obligations, if its validity is not early terminated in accordance with clause 6 of the Contract.

The Contract became effective on 07.10.2005.

Approval of related party transaction, and namely: Contract about organization of the bonds issue, the Contract being concluded by and between OJSC "VolgaTelecom" and OJSC JSCB "Svyaz-Bank" on the following material terms and conditions:

The transaction's subject – OJSC "VolgaTelecom" (the Company) instructs OJSC JSCB "Svyaz-Bank" (Arranger), and the Arranger takes upon itself to render to the Company the services of organizing the issue and the Bonds floatation, including to perform the analysis of the bond's market, to provide recommendations on the time of the bonds acquisition, and if required to prepare the drafts of changes to the Decisions on securities issue and to securities Offering memorandum, to carry out presentation activities, and also to render other services on terms and conditions envisaged by this Contract. The Company takes upon itself to pay to the Arranger the fee envisaged by this Contract.

For the purposes of rendering services the Arranger may perform legal and actual acts on the Company's behalf as stipulated by clause 6 of the Contract.

The start of the services rendering is the date of the Contract signature, and the end of the services rendering is the date of the Company's signature of Protocol of rendered services of organizing BT-3 series bonds issue as per clause 10 of the Contract.

The transaction's price – 13 250 000 (Thirteen million two hundred fifty thousand) rubles, VAT exclusive.

The Arranger has the right (but is not obliged) at its own expense to involve Vocational Advisers in order to get from them findings and recommendations required for the Services rendering.

The Company pays for the services under this Contract as per the procedure envisaged by item 7.4. of the Contract:

The 1-st payment: 7 287 500 (Seven million two hundred eighty seven thousand five hundred) rubles and VAT amount, - within 5 (Five) business days since the receipt of the invoice issued by the Arranger after the Company's signature of the protocol of rendered services of organizing BT-2 series bonds issue. The payment is made by transfer of the appropriate amount to the Arranger's corresponding account specified in item 19 of the Contract or to the Arranger's bank details specified in the invoice issue by the Arranger;

The 2-nd payment: 5 962 500 (Five million nine hundred sixty two thousand five hundred) rubles and VAT amount, - within 5 (Five) business days since the receipt of the invoice issued by the Arranger after the Company's signature of the protocol of rendered services of organizing BT-3 series bonds issue. The payment is made by transfer of the appropriate amount to the Arranger's corresponding account specified in item 19 of the Contract or to the Arranger's bank details specified in the invoice issue by the Arranger.

The Company takes upon itself to compensate the Arranger for all the losses, costs and expenses incurred by the Arranger directly or indirectly as result of non-performance or improper performance by the Company of its obligations under the Contract.

The Arranger takes upon itself to compensate the Company for all the losses, costs and expenses incurred by the Company directly or indirectly as result of non-performance or improper performance by the Arranger of its obligations under the Contract.

For the Company's delay of payment of any amounts due to the Arranger in accordance with this Contract, the Company pays the Arranger the liquidated damages in the amount of refinancing rate of RF Central Bank effective on the date of the delay beginning. The specified liquidated damages are accrued (as p.p.a.) during the entire period when the appropriate amount remains outstanding. The specified liquidated damages are due to payment after the Arranger's sending the claim about its payment within 10 days since the date of the claim's receipt.

Validity term – the Contract becomes effective since its signature by the Parties and is valid till the Parties' performance in full of their obligations.

The Contract became effective on 07.10.2005.

Approval of related party transaction, - additional agreement № 3 to agency contract № ТД-8-04 of March 31, 2004, concluded by and between Open Joint Stock Companies "North-West Telecom", "VolgaTelecom", "Center Telecom", "Southern Telecom Company", "Dalsvyaz", "Uralsvyazinform", "Sibirtelecom" acting on the Principal's side and Non-commercial Partnership "Center of investigation of problems of telecommunications development" on the following material terms and conditions:

The transaction's subject – change of the instructions stipulated by additional agreement № 1 to agency contract № ТД-8-04 of March 31, 2004, including:

Supplement and update of the work sheet of elaboration, planning, analysis, designing and testing of the second release of ERP Master-system;

Change of performance time;

Increase of agency fee stipulated by additional agreement № 1 to the sum of US\$134 511,16 VAT inclusive;

Increase of the agent's expenses to pay for works of CJSC "Open technologies 98" (Contractor 1) stipulated by additional № 1 to the sum of US\$12 594 712 VAT inclusive;

The transaction's price:

The sum for which, vs. earlier approved terms and conditions, the Company's obligation is increased to pay agency fee to Non-commercial Partnership "Center of investigation of problems of telecommunications development" - US\$2 404, 28 VAT inclusive;

The sum for which, vs. earlier approved terms and conditions, the Company's obligation is increased to pay the expenses of Non-commercial Partnership "Center of investigation of problems of telecommunications development" related to performance of agency instructions – US\$471 428, 57 VAT inclusive.

Additional agreement became effective on 11.11.2005.

Approval of related party transaction, and namely: mobile communication services contract № 1516732 of «__» _____2005, being concluded by and between OJSC "VolgaTelecom" and CJSC "Nizhny Novgorod cellular communication":

The transaction's subject – CJSC “Nizhny Novgorod cellular communication” (Operator) provides OJSC “VolgaTelecom” (Subscriber) with the services of mobile radiotelephone communication of GSM standard in accordance with tariff plan selected by the Subscriber – “Corporate Exclusive + 50% discount” which is Supplement № 2 to the contract, and the Subscriber pays for them. Communication services are provided to the Subscriber in the Operator's cover area by individual federal phone numbers specified in Supplement № 1 to the contract and given to the Subscriber.

The Subscriber, after signature of this Contract, is provided with the subscriber numbers the carriers of which are Sim-cards (phone numbers and numbers of Sim-cards are provided in Supplement № 1 to this Contract).

The transaction's price is defined in accordance with effective tariffs of the Operator as per Supplement № 2 to the Contract, VAT inclusive. All communication services and additional services are provided in conventional currency units as an equivalent of the sum due to payment in Russian rubles at US\$ rate established by RF Central Bank of the payment day (1 conventional currency unit = US\$1). The Operator has the right to change the conventional currency unit equivalent at its discretion having notified the Subscriber about these changes 10 calendar days prior to these changes.

The Subscriber pays for communication and additional services basing on the actual volume of communication services rendered to the Subscriber during the previous month. Upon completion of the billing period the Subscriber is drawn up sales invoice and the bill which should be paid within 20 days since the date of its making out. In addition, the subscriber may be issued an extra bill in case if the amount of its debt for actually rendered services exceeds 2000 (Two thousand) conventional currency units. This bill should be paid within 7 days since the date of its making out.

The Operator has the right to accrue penalty fee for the delay in payment in the amount of 0,1% of the amount due to payment for each day of delay.

The Contract's validity term – the Contract is being concluded for sine die.

The Contract became effective on 01.08.2005.

Approval of terms and conditions of the contract with LLC “Ernst & Young” for audit services of OJSC “VolgaTelecom” reporting for year 2005 drawn up as per RAS and IFRS.

Taking into account the recommendations of the Committee for audit the Board of directors made the decision to approve terms and conditions of the contract with LLC “Ernst & Young” for audit services of OJSC “VolgaTelecom” reporting for year 2005 drawn up as per RAS and IFRS, including to define the size of payment for services under the contract of RAS financial reporting audit in the amount of US\$477 700 (VAT inclusive) of IFRS reporting audit in the amount of US\$84 300 (VAT inclusive) and the procedure of compensation of overhead costs as per terms and conditions of the contract.

The contract became effective on 12.10.2005.

October 21, 2005 (minutes № 9)

The Board of directors made the decisions on:

Approval of related party transaction, and namely: Agreement of changing the procedure of settlements under Contract № 075-3601-03 of 22.04.1999, all the right of claim and the right of receipt of all payments under which were transferred by “Siemens AG” to OJSC JSCB “Svyaz-Bank”, which is confirmed by Notice of 15.07.2005 about the transfer of right of claim and the right of receipt of all payments under the Contract, being concluded by and between OJSC “VolgaTelecom” and OJSC JSCB “Svyaz-Bank” on the following material terms and conditions:

The transaction's subject - OJSC “VolgaTelecom” for the purposes of proper performance of its obligations under delivery Contract № 075-3601-03 of 22.04.1999 will make the

payments, stipulated by it, in favor of OJSC JSCB “Svyaz-Bank” in accordance with the dates specified in Supplement № 1 to the Agreement.

The payments in OJSC JSCB “Svyaz-Bank” favor will be made in rubles at the rate of Euro established by RF Central Bank on the day of payment.

The amount of payments made by the Company in OJSC JSCB “Svyaz-Bank” favor - 396 152,17 (Three hundred ninety six thousand one hundred fifty two and 17/100) Euro, including the amount of principal debt 370 929 (Three hundred seventy thousand nine hundred twenty nine) Euro and interest amount 25 223,17 (Twenty five thousand two hundred twenty three and 17/100) Euro.

The additional Agreement became effective on 24.10.2005.

October 31, 2005 (minutes № 10)

The Board of directors made the decisions on:

Approval of related party transaction, and namely: the Contract of rent of non-residential premises, being concluded by and between OJSC “VolgaTelecom” and CJSC “RTCOM” on the following terms and conditions:

The transaction’s subject – OJSC “VolgaTelecom” (Lessor) transfers and CJSC “RTCOM” (Lessee) accepts for temporary possession and utilization the non-residential premises of the total area of 590,1 m² located on the 4-th floor of five-storey building of city exchange located at: Saransk town, Kosarev str., 15 for administrative purposes;

Rental fee – 39353,77 rubles per month exclusive of VAT (as per Supplement №2 to the Contract);

OJSC “VolgaTelecom” may unilaterally change the size of rental fee, but not more than once in a year;

The size of compensation of cost of utility services and expenses for the premises maintenance is established as per Supplement № 3 to the Contract;

The Contract’s validity term – the Contract is concluded for sine die and is effective since the date of its signature.

The Contract became effective on 17.11.2005.

Approval of related party transaction, and namely: the Contract for providing for use of communication digital channels, the Contract being concluded by and between CJSC “Nizhny Novgorod cellular communication” and OJSC “VolgaTelecom” on the following material terms and conditions:

The transaction’s subject – CJSC “NCC” (Lessor) provide to OJSC “VolgaTelecom” (Lessee) for temporary use communication digital channels specified in Supplements №№ 1-29 to the Contract.

The transaction’s price – lump-sum payment for organization of channels makes up 377 600 (Three hundred seventy seven thousand six hundred) rubles VAT inclusive; monthly rental fee for using communication digital channels makes up 1 146 960 (One million one hundred forty six thousand nine hundred sixty) rubles VAT inclusive.

The dates:

Organization of channels: start – since the date of this Contract signature,

Completion – within 3 days period since the date of this Contract signature,

Use of channels: start - since the date of this Contract signature,

Completion – the Contract’s end date.

The Contract’s validity term – this Contract becomes effective since the date of its signature by both the Parties and is effective till December 31, 2005. The Contract’s validity term is considered to be extended for each next year, if neither Party states its intent to cancel the Contract not later than a month prior to the date of its expiry.

The Contract became effective on 01.12.2005.

Approval of related party transaction, - agency contract being concluded by and between Open Joint Stock Companies “North-West Telecom”, “VolgaTelecom”, “Center Telecom”, “Southern Telecom Company”, “Dalsvyaz”, “Uralsvyazinform”, “Sibirtelecom” acting on the Principal’s side and Non-commercial Partnership “Center of investigation of problems of telecommunications development” on the following material terms and conditions:

The transaction’s subject – the Agent takes upon itself the obligation on its own behalf and at the expense of the Principal to conclude with CJSC “Open technologies 98” (hereinafter – Contractor) the contract for development of courses and training facilities within the Program of implementation of Oracle E-Business Suite-based ERP/CRM system and its further operation in 7 Mega-Regional Companies, envisaged by item 1.1.1. of agency contract (hereinafter – “Contract 1”), and the contract for services/works of technical support of Master system (release 1) in the course of executing projects of implementation of Master system (release 1) in 7 MRC, envisaged by item 1.1.2. of agency contract (hereinafter – “Contract 2”).

The amount of agency fee for the entire contract – US\$71 730 VAT inclusive;

The amount of the Agent’s expenses for the entire contract – US\$2 391 000 VAT inclusive;

The amount due to payment by the Company:

i. as regards the payment of agency fee – US\$10 247,14 VAT inclusive;

ii. as regards the payment for the Agent’s expenses – US\$341 571,43 VAT inclusive;

The time of the Agent’s provision of the report – 30 business days since the date of the Contractor’s works acceptance;

The time of services/works execution by the Contractor:

i. under Contract 1 – 103 (One hundred three) business days since the day following the date of advance payment transfer to the Agent’s account;

ii. under Contract 2 – 65 (Sixty five) calendar days since the day following the date of advance payment transfer to the Agent’s account.

The contract became effective on 11.11.2005.

November 2, 2005 (minutes № 11)

The Board of directors made the decisions on:

Approval of related party transaction, and namely: Agreement about introducing changes into Contract of network interconnection № 05-21/0155 of 24/10/2003, being concluded by and between OJSC “VolgaTelecom” and OJSC “Rostelecom” on the following material terms and conditions:

The Agreement’s subject – stating in a new wording of the text of Contract of network interconnection № 05-21/0155 of October 24, 2003 on the following terms and conditions:

OJSC “Rostelecom” (Rostelecom) takes upon itself, as per terms and conditions of connection, to provide OJSC “VolgaTelecom” (Operator) with the Service of connection at DLD level of connection;

The Operator takes upon itself to provide Rostelecom with: the Service of DLD call initiation, including by codes of 80X 200(100); the Service of DLD call initiation to codes 80X X1X2X3 (where X1X2X3 – the code of Intelligent Network Operator), connected to automatic DLD telephone network in Moscow; the Service of zonal transit of call; the Service of call completion to the Operator’s network; the Service of call completion to the networks of Connected operators (hereinafter – Services of traffic transit);

The Operator provides for technical capability of open/block the Users access to the services of DLD and ILD communication rendered by OJSC “Rostelecom”;

The cost of Services of traffic transit is calculated at the following rates:

Table 26

		Estimated rate, rubles/ minute (VAT exclusive)	
		ABC 834, 835, 836, 841, 842, 848, 846, 831, 845	ABC 833 ABC 341, 353

1	The Service of DLD call initiation, including by codes 80X 200(100)	0,713	0,891	0,917
2	The Service of DLD call initiation to codes 80X X ₁ X ₂ X ₃ (where - X ₁ X ₂ X ₃ - the code of Intelligent Network Operator), connected to Rostelecom automatic DLD telephone network in Moscow	0,713	0,891	0,917
3	The Service of call transit	0,713	0,891	0,917
4	The Service of call completion to the Operator's network	0,713	0,891	0,917
5	The Service of call completion to the networks of Connected operators	0,713	0,891	0,917

The Cost of Services of traffic transit for the Reporting period is calculated on the basis of data of actual volumes of rendered Services of traffic transit for the month preceding the Reporting period;

The payment of Services of traffic transit is made every month by Rostelecom on the basis of Protocol of rendered Services of traffic transit signed by Rostelecom and the Operator;

The pricing when rendering the Services of traffic transit is made on a minute base since the 1-st second of connection;

The cost of Services of connection at DLD connection level is calculated by Rostelecom tariffs in the amount of 206,7 rubles/month for a connection point of 1 VF channel;

The payment of Service of connection is made every month within 10 days after the signature of the Protocol of rendered Services of connection by Rostelecom and the Operator;

Quarterly, and also when required Rostelecom and the Operator reconcile mutual settlements;

“DLD and ILD codes used for traffic Transit from the Operator's numbering zone” are specified in Supplement № 2 to the Contract;

“Technical requirements of Connection” are specified in Supplement № 8 to the Contract;

“The structure and the procedure of transfer of information about the Users” are specified in Supplement № 9 to the Contract;

The Contract's validity term - sine die.

Financial obligations that occurred and were not performed prior to the date of the Contract effective date should be performed in accordance with terms and conditions of Contract of network interconnection № 05-21/0155 of October 24, 2003 which is valid till this Contract becomes effective.

As the Parties communication networks at the time of this Contract conclusion are actually connected to each other, the required points of connection, as per RF current legislation, are organized, and component parts of the Service of connection (1-st, 2-nd and 3-d stages) specified in item 1.11 of the Contract (definition of “the Service of connection”) are rendered, Rostelecom's obligation of providing the Service of connection is related only to the 4-th stage of its rendering.

This Contract becomes effective since its signature by the Parties.

The Contract became effective on 27.12.2005.

Approval of related party transaction, and namely: Contract № ____, being concluded by and between OJSC “VolgaTelecom” and OJSC “Rostelecom” on the following material terms and conditions:

The Contract's subject – OJSC “Rostelecom” (Rostelecom) instructs OJSC “VolgaTelecom” (Operator), and the Operator takes upon itself for a fee to perform on behalf and at the expense of Rostelecom legal and actual acts stipulated by items 1, 4 and 9 of Supplement № 2 to the Contract. The Operator takes upon itself for value to render Rostelecom the Services specified in items 2, 3, 5, 6, 7 and 8 of Supplement № 2 to this Contract.

- The cost of the Operator's Services (VAT exclusive) rendered to Rostelecom:

Provision of services of subscriber's call processing when providing access to DLD and ILD services under immediate and order system of servicing makes up 11,43 rubles per a minute of connection under immediate and order system of servicing;

Billing processing of communication services makes up 0,075 ruble per a minute of outgoing DLD and ILD traffic;

Formation, printing, keeping, copying of bills makes up 0,04 ruble per a minute of outgoing DLD and ILD traffic;

Formation, printing, keeping, copying of sales invoices, protocols of executed works, signature of protocols of comparison of payments with customers makes up 0,063 rubles per a minute of outgoing DLD and ILD traffic;

Preparation of reporting forms makes up 1 325 857 rubles per a set;

Delivery of documents makes up 0,025 ruble per a minute of outgoing DLD and ILD traffic;

- The Operator's agency fee for performance on behalf of and the instruction of Rostelecom of legal and actual acts under the Contract:

Collection of payment from subscribers in the amount of 6,25% of received earnings;

Claim administration in the amount of 2,5% of received earnings;

Information-reference servicing of users in the amount of 0,05 ruble per a minute of outgoing DLD and ILD traffic;

- Based on the results of the Contract execution by the Parties in quarter 1 of 2006, the Parties may conclude additional agreement about the change of cost of Services and the Operator's fee size set forth in Supplement № 2 to this Contract. In case the Parties decide to conclude such an additional agreement, the Parties should do it on 01.07.2006;

- Mutual settlements between the Parties are made on a monthly basis;

- This Contract becomes effective since the date of its signature by the Parties and is effective for a year since the effective date. If neither Party states the Contract's validity termination 30 (Thirty) calendar days prior to the expiry of its validity term, then the Contract is automatically extended for each next year. The number of periods for which this Contract validity term may be extended is not limited.

The Contract became effective on 27.12.2005.

November 21, 2005 (minutes № 12)

The Board of directors made the decisions on:

Approval of related party transaction, and namely – Contract of suretyship being concluded by and between OJSC "VolgaTelecom" and OJSC JSCB "Svyaz-Bank" on the following material terms and conditions:

The transaction's subject – OJSC "VolgaTelecom" (Guarantor) is jointly with CJSC "RTCOM" (Borrower) responsible to OJSC JSCB "Svyaz-Bank" (Bank) for the Borrower's performance in full of all its obligations under Contract of credit line № _____ of _____ (hereinafter – Credit agreement):

Payments limit – 114 000 000 (One hundred fourteen million) rubles;

Credit line period – 2 years;

Interest rate for credit use – 12% p.p.a.;

The Bank's other services and the procedures of their payment are provided as stipulated by section 4 of Credit agreement;

The Borrower, before the time of credit extension specified in item 1.3. of Credit agreement, as a security of performance of its obligations of timely and full repayment of credit, payment of interest accrued for its use, and payment of other services of the Bank, provides the Bank with OJSC "VolgaTelecom" suretyship;

The Borrower within 20 business days since Credit agreement conclusion provides the Bank with additional agreement to Contract of bank account with Mordoviya's Savings Bank

Department 8589 of Russia's Savings Bank № 420 of 30.11.2000, concluded by and between the Borrower and Mordoviya's Savings Bank Department 8589 of Russia's Savings Bank stipulating the Bank's right to direct debiting of money from the Borrower's settlement account № 40702810539150100389 with Mordoviya's Savings Bank Department 8589 of Russia's Savings Bank (Saransk town) for the purposes of repayment of debt under Credit agreement;

The Borrower should pay to the Bank the liquidated damages in case of nonredemption or untimely repayment of the entire amount owed under the principal debt within the period set forth by item 3.5. of Credit agreement, including in case when the Bank's call is available, in the amount of 0,05% of the sum of arrears under the principal debt accrued for each day of delay;

The Borrower should pay to the Bank the liquidated damages in case of non-performance of obligations of paying interest for credit use within the period set forth by item 3.1.2. of Credit agreement in the amount of 0,05% of the sum of interest arrears accrued for each day of delay;

The Borrower should pay to the Bank the liquidated damages in case of non-performance of obligations of payment for the Bank's services related to the credit accommodation and management of loan funds and specified in section 4 of Credit agreement in the amount of 0,05% of the sum of the appropriate payment for each day of delay;

The Borrower should pay to the Bank the liquidated damages in case of violation of time period of presenting to the Bank accounting and financial statements specified in item 2.7. of Credit agreement in the amount of 0,05% of the sum owed under the principal debt accrued for each day of delay.

The Contract's validity term – the Contract becomes effective since the date of its signature by the parties and is effective till the Guarantor's performance in full of the obligations under the Contract or becomes invalid by other reasons stipulated by RF current legislation.

The Contract became effective on 05.12.2005.

The Guarantor is obliged at the first claim of the Bank within 3 business days since the day of filing the claim about the performance of obligations under the Credit agreement to transfer the sum specified in the claim to the Bank's correspondent account.

If the Guarantor fails to perform the obligations specified in item 2.1.2. of the Contract of suretyship, the Guarantor authorizes the Bank to write off the debt amount from the Guarantor's following account №4070281014202002011 with Volgo-Vyatskyi bank of RF Savings Bank.

In case of the Guarantor's performance of the Borrower's obligations in full under the contract of credit line, the Bank takes upon itself to transfer to the Guarantor, under the delivery-acceptance certificate, the documents certifying the right of claim of the Bank to the Borrower, including Credit agreement, extract from loan account of the Borrower with the Bank, verified by the Bank's authorized representative and impression of the Bank's seal.

In case of the Guarantor's refusal to perform the Borrower's obligations to the Bank under the Credit agreement, or the Guarantor's performance of the Borrower's obligations with violation of time period set forth by item 2.1.2. of the Contract of suretyship, the guarantor pays to the Bank the liquidated damages for each day of delay in the amount of 0,05% of the Borrower's debt sum to the Bank existing on the day of the Bank's filing the claim to the Guarantor.

The Guarantor's payment of liquidated damages set forth by item 3.2. of the Contract of suretyship does not release the Guarantor from the responsibility to perform the obligations taken upon itself under the Contract of suretyship.

Approval of related party transaction, and namely - Contract of suretyship being concluded by and between OJSC "VolgaTelecom" and OJSC JSCB "Svyaz-Bank" on the following material terms and conditions:

The transaction's subject – OJSC "VolgaTelecom" (Guarantor) is jointly with CJSC "Orenburg-GSM" (Borrower) responsible to OJSC JSCB "Svyaz-Bank" (Bank) for the Borrower's performance in full of all its obligations under Credit agreement № 073к/942 of 28.09.2005 (hereinafter – Credit agreement):

Credit amount – 35 000 000 (Thirty five million) rubles;

Credit reimbursement period – September 13, 2007;

Interest rate for credit use – 11 % p.p.a.;

The Bank's other services and the procedures of their payment are provided as stipulated by section 4 of Credit agreement;

The Borrower should pay to the Bank the liquidated damages in case of nonredemption or untimely repayment of the entire amount owed under the principal debt within the period set forth by item 3.6. of Credit agreement, including in case when the Bank's call is available, in the amount of 0,05% of the sum of arrears under the principal debt accrued for each day of delay;

The Borrower should pay to the Bank the liquidated damages in case of non-performance of obligations of paying interest for credit use within the period set forth by item 3.3. of Credit agreement in the amount of 0,05% of the sum of interest arrears accrued for each day of delay;

The Borrower should pay to the Bank the liquidated damages in case of non-performance of obligations of payment for the Bank's services related to the credit accommodation and management of loan funds and specified in section 4 of Credit agreement in the amount of 0,05% of the sum of the appropriate payment for each day of delay;

The Borrower should pay to the Bank the liquidated damages in case of violation of time period of presenting to the Bank accounting and financial statements specified in item 2.6. of Credit agreement in the amount of 0,05% of the sum owed under the principal debt accrued for each day of delay.

The Guarantor is obliged at the first claim of the Bank within 3 business days since the day of filing the claim about the performance of obligations under the Credit agreement to transfer the sum specified in the claim to the Bank's correspondent account.

If the Guarantor fails to perform the obligations specified in item 2.1.2. of the Contract of suretyship, the Guarantor authorizes the Bank to write off the debt amount from the Guarantor's following account №4070281014202002011 with Volgo-Vyatskyi bank of RF Savings Bank.

In case of the Guarantor's performance of the Borrower's obligations in full under the Credit agreement, the Bank takes upon itself to transfer to the Guarantor, under the delivery-acceptance certificate, the documents certifying the right of claim of the Bank to the Borrower, including Credit agreement, extract from loan account of the Borrower with the Bank, verified by the Bank's authorized representative and impression of the Bank's seal.

In case of the Guarantor's refusal to perform the Borrower's obligations to the Bank under the Credit agreement, or the Guarantor's performance of the Borrower's obligations with violation of time period set forth by item 2.1.2. of the Contract of suretyship, the Guarantor pays to the Bank the liquidated damages for each day of delay in the amount of 0,05% of the Borrower's debt sum to the Bank existing on the day of the Bank's filing the claim to the Guarantor. The Guarantor's payment of liquidated damages set forth by item 3.2. of the Contract of suretyship does not release the Guarantor from the responsibility to perform the obligations taken upon itself under the Contract of suretyship.

The Contract's validity term – the Contract becomes effective since the date of its signature by the parties and is effective till the Guarantor's performance in full of the obligations under the Contract or becomes invalid by other reasons stipulated by RF current legislation.

The Contract became effective on 25.11.2005.

Approval of related party transaction, and namely - Contract of suretyship being concluded by and between OJSC "VolgaTelecom" and OJSC JSCB "Svyaz-Bank" on the following material terms and conditions:

The transaction's subject – OJSC "VolgaTelecom" (Guarantor) is jointly with CJSC "Orenburg-GSM" (Borrower) responsible to OJSC JSCB "Svyaz-Bank" (Bank) for the Borrower's performance in full of all its obligations under Contract of credit line № 074Л/942 of 28.09.2005 (hereinafter – Credit line agreement):

Payments limit – 22 000 000 (Twenty two million) rubles;

Credit line period – from September 28, 2005 till September 13, 2007;

Interest rate for credit use – 11% p.p.a.;

The Bank's other services and the procedures of their payment are provided as stipulated by section 4 of Credit line agreement;

The Borrower should pay to the Bank the liquidated damages in case of nonredemption or untimely repayment of the entire amount owed under the principal debt within the period set forth by item 3.5. of Credit line agreement, including in case when the Bank's call is available, in the amount of 0,05% of the sum of arrears under the principal debt accrued for each day of delay;

The Borrower should pay to the Bank the liquidated damages in case of non-performance of obligations of paying interest for credit use within the period set forth by item 3.1.2. of Credit line agreement in the amount of 0,05% of the sum of interest arrears accrued for each day of delay;

The Borrower should pay to the Bank the liquidated damages in case of non-performance of obligations of payment for the Bank's services related to the credit accommodation and management of loan funds and specified in section 4 of Credit line agreement in the amount of 0,05% of the sum of the appropriate payment for each day of delay;

The Borrower should pay to the Bank the liquidated damages in case of violation of time period of presenting to the Bank accounting and financial statements specified in item 2.7. of Credit line agreement in the amount of 0,05% of the sum owed under the principal debt accrued for each day of delay.

The Contract's validity term – the Contract becomes effective since the date of its signature by the parties and is effective till the Guarantor's performance in full of the obligations under the Contract or becomes invalid by other reasons stipulated by RF current legislation.

The Contract became effective on 25.11.2005.

The Guarantor is obliged at the first claim of the Bank within 3 business days since the day of filing the claim about the performance of obligations under the Credit line agreement to transfer the sum specified in the claim to the Bank's correspondent account.

If the Guarantor fails to perform the obligations specified in item 2.1.2. of the Contract of suretyship, the Guarantor authorizes the Bank to write off the debt amount from the Guarantor's following account №4070281014202002011 with Volgo-Vyatskyi bank of RF Savings Bank.

In case of the Guarantor's performance of the Borrower's obligations in full under the Credit line agreement, the Bank takes upon itself to transfer to the Guarantor, under the delivery-acceptance certificate, the documents certifying the right of claim of the Bank to the Borrower, including Credit line agreement, extract from loan account of the Borrower with the Bank, verified by the Bank's authorized representative and impression of the Bank's seal.

In case of the Guarantor's refusal to perform the Borrower's obligations to the Bank under the Credit line agreement, or the Guarantor's performance of the Borrower's obligations with violation of time period set forth by item 2.1.2. of the Contract of suretyship, the Guarantor pays to the Bank the liquidated damages for each day of delay in the amount of 0,05% of the Borrower's debt sum to the Bank existing on the day of the Bank's filing the claim to the Guarantor. The Guarantor's payment of liquidated damages set forth by item 3.2. of the Contract of suretyship does not release the Guarantor from the responsibility to perform the obligations taken upon itself under the Contract of suretyship.

Approval of related party transaction, and namely – Contract of bank account in Russian Federation currency being concluded by and between OJSC "VolgaTelecom" and OJSC JSCB "Svyaz-Bank" on the following material terms and conditions:

The transaction's subject – OJSC JSCB "Svyaz-Bank" (Bank) establishes to OJSC "VolgaTelecom" (Customer) settlement account №_____ (hereinafter – Account) in Russian Federation currency (Russian rubles).

The transaction's price – the Customer pays to the Bank the fee as per accounting documents for the services of the Account's maintenance and operations handling on it in the size and on terms and conditions set forth by the Bank's Tariffs (Supplement № 1 to the Contract). Taxes, dues, duties, telecom and other expenses, if available, are charged additionally to the fee as per the Bank's Tariffs at their actual cost as debit without further authorization.

The Bank may change the Tariffs unilaterally by notifying the Customer by posting the new tariffs in the Bank's operating halls. The fee is charged at changed Tariffs since the date set forth by the Bank's decision.

In case of untimely crediting of funds to the Account, and also unjustified writing off of the funds from the Customer's Account, the Bank pays to the Customer the penalty fee in the amount of 0,05 % of untimely or wrongly credited (written off) sum for each day of delay, but not more than 5% of the amount in dispute.

For the delay of payment for the Bank's services the Customer pays the penalty fee in the amount of 0,05 % of the amount of payment for each day of delay, but not more than 5% of the amount in dispute.

The Contract's validity term – the Contract becomes effective since the date of its signature by the Parties is effective for sine die.

The Contract became effective on 23.11.2005.

Approval of related party transaction, and namely – the Contract of making settlements by utilizing the system of electronic flow of documents "Bank – Customer" being concluded by and between OJSC "VolgaTelecom" and OJSC JSCB "Svyaz-Bank" on the following material terms and conditions:

The transaction's subject – determination of the procedure of administrative and technical arrangement of exchange by electronic documents between OJSC JSCB "Svyaz-Bank" (Bank) and OJSC "VolgaTelecom" (Customer) and making settlements by the Customer's instructions by means of "System of electronic flow of documents "Bank – Customer" (hereinafter – SEFD), and also the method of validation of authorship and the procedure of establishment of electronic documents authenticity. Settlement operations at the Customer's account are made in accordance with legislation and Contract of bank account in Russian Federation rubles №__ of «__» _____ 2005.

The transaction's price – the cost of SEFD installation ("Customer" sub-system) is 1 000 rubles, and also the sum of monthly payments for the Bank's services of using the said sub-system is paid as per the Bank's effective Tariffs in the amount not exceeding 500 rubles.

The procedure of operation, the rights and duties of the Bank and the Customer are defined in article 4 of the Contract.

The Customer has the right unilaterally to cancel the Contract in case of the Bank's change of the Tariffs for SEFD maintenance.

The Customer takes upon itself to pay to the Bank the penalty fee for untimely or incomplete payment for the Bank's services as per the Contract proceeding from dual rate of refinancing of RF Central Bank effective on the day of violation and accrued on untimely paid sum.

The Contract's validity term – the Contract becomes effective since the date of its signature by both the Parties and is valid within the period of validity term of the contract of bank account. The Contract is valid in regard to the Customer's account with the Bank established on the basis of the contract of bank account specified in item 1.2. of the Contract.

The Contract became effective on 23.11.2005.

November 22, 2005 (minutes № 13)

The Board of directors made the decision on:

Approval of related party transaction – transaction with OJSC JSCB "Svyaz-Bank" on placement of OJSC "VolgaTelecom" inconvertible interest bearing certified bearer bonds of BT-2 series, state registration number 4-44-00137-A of November 10, 2005, being floated on the ba-

sis and in accordance with the decision on securities issue approved by OJSC “VolgaTelecom” Board of directors (Minutes № 8 of October 3, 2005), by way of public offering at CJSC “Stock Exchange MICEX” on the following material terms and conditions:

The Bonds offering price – 1000 rubles per a Bond; starting since the second day of the Bonds floatation the buyer when making the Bonds purchase and sale transaction also pays the Bonds’ accrued coupon yield which is calculated as per the Decision on securities issue;

The quantity of the Bonds being floated by OJSC JSCB “Svyaz-Bank” – up to 590000 pieces inclusive;

The face value of each Bond being floated – 1 000 rubles;

The Bonds maturity term –

Of the first 20% of the face value of the issue bonds on the 1092-nd day since the start date of the issue bonds floatation;

Of the second 20% of the face value of the issue bonds on the 1274-th day since the start date of the issue bonds floatation;

Of the third 20% of the face value of the issue bonds on the 1456-th day since the start date of the issue bonds floatation;

Of the fourth 20% of the face value of the issue bonds on the 1638-th day since the start date of the issue bonds floatation;

Of the fifth 20% of the face value of the issue bonds on the 1820-th day since the start date of the issue bonds floatation;

Other terms and conditions of floatation, circulation and retirement of the Bonds, as well as the size, time period and the procedure of the Bonds yield payment are defined in accordance with the Decision on securities issue.

Approval of related party transaction – transaction with OJSC JSCB “Svyaz-Bank” on placement of OJSC “VolgaTelecom” inconvertible interest bearing certified bearer bonds of BT-3 series, state registration number 4-45-00137-A of November 10, 2005, being floated on the basis and in accordance with the decision on securities issue approved by OJSC “VolgaTelecom” Board of directors (Minutes № 8 of October 3, 2005), by way of public offering at CJSC “Stock Exchange MICEX” on the following material terms and conditions:

The Bonds offering price – 1000 rubles per a Bond; starting since the second day of the Bonds floatation the buyer when making the Bonds purchase and sale transaction also pays the Bonds’ accrued coupon yield which is calculated as per the Decision on securities issue;

The quantity of the Bonds being floated by OJSC JSCB “Svyaz-Bank” – up to 590 000 pieces inclusive;

The face value of each Bond being floated – 1 000 rubles;

The Bonds maturity term –

Of the first 20% of the face value of the issue bonds on the 1092-nd day since the start date of the issue bonds floatation;

Of the second 20% of the face value of the issue bonds on the 1274-th day since the start date of the issue bonds floatation;

Of the third 20% of the face value of the issue bonds on the 1456-th day since the start date of the issue bonds floatation;

Of the fourth 20% of the face value of the issue bonds on the 1638-th day since the start date of the issue bonds floatation;

Of the fifth 20% of the face value of the issue bonds on the 1820-th day since the start date of the issue bonds floatation;

Other terms and conditions of floatation, circulation and retirement of the Bonds, as well as the size, time period and the procedure of the Bonds yield payment are defined in accordance with the Decision on securities issue.

December 2, 2005 (minutes № 14)

The Board of directors made the decisions on:

Approval of transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 4 to contract № 292/1 of 09.02.2004 of opening non-revolving credit line and additional agreement № 4 to pledge contract № 37 of 09.02.2004, being concluded by and between Joint stock commercial Savings bank of Russian Federation (open joint stock company) and the Company on the following material terms and conditions:

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 4 to contract № 292/1 of 09.02.2004 of opening non-revolving credit line being concluded by and between Joint stock commercial Savings bank of Russian Federation (open joint stock company) (hereinafter – Russia's Savings Bank) and the Company on the following material terms and conditions:

The transaction's subject – reduction of the property's collateral value as stipulated by the contract.

Additional agreement became effective on 09.12.2005.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 4 to fixed assets pledge contract № 37 of 09.02.2004 being concluded by and between Russia's Savings Bank and the Company on the following material terms and conditions:

The transaction's subject – change of pledge subject and of its collateral value, and namely:

- exclude from pledge subject structure thirteen units of equipment (identification numbers 0402008191, 0402005066, 0402005065, 0402005248, 0402002647, 0402008461, 0402001810, 0402006074, 0402006207, 0402006867, 0402007791, 0402000592, 3501) of the total collateral value of 21 939 638,03 rubles;

- introduce into pledge subject structure sixteen units of equipment (identification numbers 0402026952, 0402028579, 0402030223, 0402052396, 0402027411, 0402030119, 0402030175, 0402028530, 0401002107, 0402050745, 0402028631, 0402028632, 0402027314, 0402051582, 6321, 6322) of the total collateral value of 21 939 590,71 rubles;

Define the pledge subject collateral value in the amount of – 733 046 576 (Seven hundred thirty three million forty six thousand five hundred seventy six) rubles 28 kopecks.

Additional agreement became effective on 09.12.2005.

Approval of transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 2 to contract № 23 of 01.03.2005 of opening non-revolving credit line and additional agreement № 2 to fixed assets pledge contract № 40 of 01.03.2005, being concluded by and between Joint stock commercial Savings bank of Russian Federation (open joint stock company) and the Company on the following material terms and conditions:

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 2 to contract № 23 of 01.03.2005 of opening

non-revolving credit line being concluded by and between Joint stock commercial Savings bank of Russian Federation (open joint stock company) (hereinafter – Russia’s Savings Bank) and the Company on the following material terms and conditions:

The transaction’s subject – reduction of envisaged by the contract of the size of balance-sheet value of security to the sum in the amount of 647 080 086 (Six hundred forty seven million eighty thousand eighty six) rubles 84 kopecks;

Additional agreement became effective on 09.12.2005.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company’s balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 2 to fixed assets pledge contract № 40 of 01.03.2005 being concluded by and between Russia’s Savings Bank and the Company on the following material terms and conditions:

The transaction’s subject – change of pledge subject, and namely:

- exclude from pledge subject structure two units of equipment (identification number 136Г) of collateral value of 2 010 865,53 rubles and (identification number 421311) of collateral value of 739 434,57 rubles, of the total collateral value of 2 750 300,10 rubles;

- change identification numbers with eleven units of equipment without changing the equipment collateral value:

Identification number “2214030073” is to be replaced with number “0914030073”,

Identification number “2204220147” is to be replaced with number “0904220147”,

Identification number “2230000840” is to be replaced with number “0930000840”,

Identification number “2240003102” is to be replaced with number “0940003102”,

Identification number “2240003103” is to be replaced with number “0940003103”,

Identification number “2240003104” is to be replaced with number “0940003104”,

Identification number “2240003105” is to be replaced with number “0940003105”,

Identification number “2240003106” is to be replaced with number “0940003106”,

Identification number “2240003107” is to be replaced with number “0940003107”,

Identification number “2240003108” is to be replaced with number “0940003108”,

Identification number “2214020033” is to be replaced with number “0914020033”;

- change the location of five units of equipment (new identification numbers 0940003105; 0940003106; 0940003107; 0940003108; 1142711101 - relocation) without changing the collateral value;

- introduce into pledge subject structure four units of equipment (identification number 28:136Г) of collateral value of 408 332,00 rubles, (identification number 18:136Г) of collateral value of 1 602 533,53 rubles, (identification number 050400003371) of collateral value of 320 997,10 rubles, (identification number 050699930041) of collateral value of 418 437,47 rubles, of the total collateral value of 2 750 300,10 rubles.

Additional agreement became effective on 09.12.2005.

Approval of the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company’s balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 1 to fixed assets pledge contract № 131 of 26.05.2005 being concluded by and between Joint stock commercial Savings bank of Russian Federation (open joint stock company) and the Company on the following material terms and conditions:

The transaction’s subject – change of pledge subject, of its location and of collateral value, and namely:

- exclude from pledge subject three units of equipment (identification numbers 43:H004401Г, 46778, 43:40881Г) of the total collateral value of 2 138 564,05 rubles;

- change the location with two units of equipment (identification numbers 16:H004442, 19:H004442.1 - relocation) without changing the collateral value;
- replace identification number "466022A" with number "48:466022A" of one unit of equipment and change the name without changing the collateral value;
- introduce into pledge subject structure six units of equipment (identification numbers 48:466202A, 48:466323A, 38:46778.1Г, 43:46778*Г, 8:004401.1Г, 43:004401*Г) of the total collateral value of 2 103 061,80 rubles;

Define the pledge subject collateral value in the amount of 216 048 863 (Two hundred sixteen million forty eight thousand eight hundred sixty three) rubles 34 kopecks.

Additional agreement became effective on 09.12.2005.

Approval of transactions related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 7 to contract № 191 of 09.06.2004 of opening non-revolving credit line and additional agreement № 4 to fixed assets pledge contract № 152 of 09.06.2004, and additional agreement № 4 to fixed assets pledge contract № 172 of 06.07.2004, being concluded by and between Joint stock commercial Savings bank of Russian Federation (open joint stock company) and the Company on the following material terms and conditions:

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 7 to contract № 191 of 09.06.2004 of opening non-revolving credit line being concluded by and between Joint stock commercial Savings bank of Russian Federation (open joint stock company) (hereinafter – Russia's Savings Bank) and the Company on the following material terms and conditions:

The transaction's subject – reduction of envisaged by the contract of the size of balance-sheet value of security of the second tranche to the sum in the amount of 398 264 033 (Three hundred ninety eight million two hundred sixty four thousand thirty three) rubles 76 kopecks;

Additional agreement became effective on 09.12.2005.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 4 to fixed assets pledge contract № 152 of 09.06.2004, being concluded by and between Russia's Savings Bank and the Company on the following material terms and conditions:

The transaction's subject – change of pledge subject, and namely:

- exclude from the pledge subject structure two units of equipment (identification numbers 426108, 426109) of the total collateral value of 5 141 291,28 rubles;

- introduce into the pledge subject structure two units of equipment (identification numbers 426108, 426109) of the total collateral value of 5 141 291,28 rubles;

- replace identification number "1144369201" with number "1144399201" with one unit of equipment without changing the collateral value;

- change the location with four units of equipment (identification numbers 1142141351, VII-01085, OI002758, OI005760 - relocation) without changing the collateral value;

Additional agreement became effective on 09.12.2005.

Approve the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date, – additional agreement № 4 to fixed assets pledge contract № 172 of 06.07.2004, being concluded by and between Russia's Savings Bank and the Company on the following material terms and conditions:

The transaction's subject – change of pledge subject, and namely:

- exclude from the pledge subject structure one unit of equipment (identification number 43:000547***Г – tear down) of collateral value of 2 655 275,21 rubles;
- replace identification number “20:878C” with number “43:878C” with one unit of equipment without changing the collateral value, and change its name and location;
- introduce into the pledge subject structure four units of equipment (identification numbers 6:000547.1Г, 5:000547.2Г, 5:000547.3Г, 43:000547***Г) of the total collateral value of 2 655 275,21 rubles.

Additional agreement became effective on 09.12.2005.

Approval of the transaction related to the acquisition, alienation or capability of alienation by the Company directly or indirectly of the property the cost of which makes up from 0,5 to 25% of the Company's balance sheet assets defined as per the data of its accounting statement as of the last reporting date and namely, – Contract of suretyship № П-9326 of «__» _____, being concluded by and between OJSC “VolgaTelecom” and Joint stock commercial Savings bank of Russian Federation (open joint stock company) on the following material terms and conditions:

1. Subject matter of the Contract – provision by the Company of security for the performance of all obligations of OJSC “RTC-LEASING” (hereinafter – Borrower or Promisor) resulting from Contract № 9326 of opening non-revolving credit line concluded by and between the Promisor and Creditor (hereinafter – Credit agreement) including:

1.1. Credit line limit – 600 000 000 (Six hundred million) rubles as of the date of Credit agreement signature with further stage-by-stage increase of the limit in accordance with the following schedule:

Table 27

Limit validity period	Limit amount (rubles)
From 01.11.2005 till 31.12.2005	650.000.000 (Six hundred fifty million)
From 01.01.2006 till 31.03.2006	700.000.000 (Seven hundred million)
From 01.04.2006 till 01.06.2006	750.000.000 (Seven hundred fifty million)

1.2. Intended use of credit funds – to finance the expenses related to the equipment acquisition with its further transfer to leasing to the Guarantor, including compensating for the Borrower's expenses for this equipment acquisition earlier incurred by the Borrower.

1.3. Credit term – 5 years since the date of Credit agreement signature.

1.4. Credit funds availability period – till June 01, 2006.

1.5. Credit agreement interest rate is floating and depends on monthly turnover reflecting credit of funds on all settlement and current currency accounts established by OJSC “Uralsvyaz-inform”, OJSC “VolgaTelecom”, OJSC “Sibirtelecom”, OJSC “Dalsvyaz”, OJSC “North-West Telecom”, OJSC “Southern Telecom Company” and OJSC “CenterTelecom” with Russia's Savings Bank sub-divisions and is defined as per the following table:

Table 28

Monthly average credit turnover, rubles	Rate (% p.p.a.)
Less than 15 billion	12,5%
From 15 billion to 25 billion	11,5%
More than 25 billion	11,0%

1.6. Fee for credit line limit use – 0,1 % p.p.a.

1.7. Fee for funds reservation – 0 % p.p.a.

1.8. Liquidated damages for all kinds of debt in arrears – in the size of RF Central Bank re-financing rate increased by factor of 1,5.

1.9. The Creditor has the right to initiate negotiations of increasing the size of interest rates specified in item 2.5. of the credit agreement in the following cases:

- Adoption by RF Government, its bodies or by Russia's Central Bank of measures substantially changing the standing of the parties under the Credit agreement;
- Adoption by RF Central Bank of resolutions of changing the standards of requires reserves deposited by the Creditor with RF Central Bank;
- Change of rate of any time deposits of natural persons of Russia's Savings Bank for the period from 88 (Eighty eight) to 93 (Ninety three) days;
- Change of tax legislation substantially worsening the Creditor's standing.

Herewith, the Creditor sends to the Borrower, by the method specified in item 9.3. of the Credit agreement, the notice about the start of negotiations of increasing the size of interest rates specified in item 2.5. of the Credit agreement. In case, if the parties during 90 (Ninety) calendar days since the date of the Borrower's receipt of negotiations start notice failed to elaborate new mutually acceptable terms and conditions of the Credit agreement, or the Borrower backs out of negotiations participation, the values of interest rates are set in the figures as they were specified in the Creditor's notice about negotiations start.

New values of interest rates start to be effective in 90 (Ninety) calendar days since the date of the Borrower's receipt of the notice about the start of negotiations of changing the values of interest rates.

Herewith, the maximum value of interest rate set unilaterally and specified in item 2.5. of the Credit agreement cannot exceed the maximum rate of time deposits of the Creditor's natural persons for the period from 88 (Eighty eight) to 93 (Ninety three) days increased by the factor of 1,5 (One and half).

2. The Guarantor takes upon itself to compensate legal and other costs of recovery of debt and other losses of the Creditor resulted from non-performance or improper performance by the Borrower of its obligations under the Credit agreement.

3. The Guarantor authorizes the Creditor for direct debiting of debt in arrears from the Company's account with Russia's Savings Bank specified in the contract of suretyship.

4. The nature of the Guarantor's responsibility – jointly with the Promisor.

5. Fee for surety provision – is not charged.

6. The Company, as the Guarantor, agrees to be liable for the performance of obligations stipulated by the Credit agreement in case its debt is transferred to other entity.

In case of debt transfer to other entity within the period till June 01, 2006, the Guarantor's obligation to be liable for any other promisor occurs if the following conditions are observed simultaneously:

- the funds received by new promisor/promisors within the Credit agreement will be spent for the acquisition of telecom equipment with its further transfer to leasing to the Guarantor;

- new promisor/promisors under the Credit agreement are transferred the rights of lessor under all contracts of financial lease being in pawn with the Creditor as of the date of the debt transfer and for financing of which the borrowed funds were raised within the Credit agreement.

In case of debt transfer to other entity after June 01, 2006 the Guarantor's obligation to be liable for any other promisor occurs only in case, if the new promisor/promisors under the Credit agreement are transferred the rights of lessor under all contracts of financial lease being in pawn with the Creditor as of the date of the debt transfer and for financing of which the borrowed funds were raised within the Credit agreement.

7. Commission the General Director to sign the contract of suretyship on terms and conditions specified in this Decision.

The contract became effective on 27.12.2005.

December 9, 2005 (minutes № 15)

The Board of directors made the decisions on:

Approval of related party transaction, and namely - contract of hiring work being concluded by and between OJSC "VolgaTelecom" and OJSC "Svyazintek" on the following material terms and conditions:

The contract's subject – the Company instructs and OJSC "Svyazintek" takes upon itself the following obligations:

To develop "master-system" – software modules designed for joint functioning with software provided by Amdocs Development Limited and acquired by the Company as per supply contract with IBM Eastern Europe/Asia of 01.12.2004;

To transfer to the Company the rights to use the "master-system" in the volume defined by section 5. of the contract taking into account the limitations envisaged by section 2. of supplements № 3 and № 4 to the contract.

The price of the Company's acquired works and rights to use its results is US\$13 371 052 (Thirteen million three hundred seventy one thousand fifty two) VAT inclusive;

The procedure of settlements:

The Company pays for the first stage in advance within 10 banking days after the Contract signature;

The Company pays for the balanced stages within 10 banking days after acceptance of works of the appropriate stage;

Performance time:

Initial date – 15.10.2005;

Deadline – 20.10.2006;

Warranty period established by OJSC "Svyazintek" for the results of executed works, – 12 months since the date of acceptance of the works results.

The contract became effective on 15.12.2005.

Approval of related party transaction, and namely - Contract № 484-05 of ____ 2005 for design and exploratory work, being concluded by and between the Company and OJSC "GIPROSVYAZ" on the following material terms and conditions:

- The transaction's subject – OJSC "VolgaTelecom" (Customer) instructs and OJSC "GIPROSVYAZ" (Contractor) takes upon itself to develop system project of the object: "Construction of OJSC "VolgaTelecom" calls servicing center" (hereinafter – the object).

- Works are carried out in accordance with Terms of reference for the development of system project of the object (Supplement № 1).

- The transaction's price – 2 500 055,38 (Two million five hundred thousand fifty five) rubles 38 kopecks VAT inclusive.

- The Contractor takes up the performance of work under the Contract after its signature and the receipt of required initial data and the advance payment in the amount of 50% of the Contract value transferred to the Contractor's settlement account within 20 banking days after the Contract signature on the basis of the invoice drawn up by the Contractor.

- The balanced amount under this Contract is paid by the Customer by transfer to the Contractor's settlement account within 30 days since the date of signature of Acceptance certificate of works completion or since the expiry of the period set forth for sending the Customer's reasoned refusal to sign Acceptance certificate of works completion on the basis of the invoice drawn up by the Contractor.

- The term of delivery of works completion under the Contract - 2,5 months since the date of the Contract's signature and transfer of advance payment and receipt of initial data.

- The Contract's validity term – the Contract becomes effective since the date of its signature and is valid till the Parties performance of their obligations.

- The Contract became effective on 21.12.2005.

X. MAJOR RISK FACTORS

The status and prospects of competition development.

In 2005 in the regions where OJSC “VolgaTelecom” is operating further improvement of competition was observed. The Company encounters strong competition in three key regions – Nizhny Novgorod, Samara and Saratov oblasts. These are the most dynamically developing regions from the point of view of economy. As per the forecasts the share of these regions in the revenues of telecom market covered by the company will amount in 2006 to 64,5%. The subscribers’ paying capacity is growing at high rates. That is why these regions are the most attractive for the competitors.

Along with a large number of regional alternative operators at the markets of these oblasts there are also such large companies as “Golden Telecom, Inc”, CJSC “TransTeleCom Company” and LLC “Global One”.

At the beginning of 2005 in Nizhny Novgorod, Ulyanovsk and in a number of other branches it became more evident that alternative operators are carrying out active arrangements to provide services in such an attractive segment as profit-making organizations (the revenues of the competitors in this segment started to grow at higher rates). Their main advantage – dumping tariff policy, rate ruling at package offer of services and direct sales method.

The market trend of DLD traffic reduction is maintained. The major reason of this situation is expansion of cellular communication services market.

At the market of Internet access services there are very many alternative service providers and they exert considerable competitive pressure on the Company. Al in all in the region there are about 100 providers.

At telecom markets of the regions where the Company is operating there is observed considerable unsatisfied demand for modern communication services: VPN, IP-telephony, Internet access over dedicated lines. In the years coming the growth of capacity of modern communication services market is expected and in this connection OJSC “VolgaTelecom” sets the following priorities of activity in this market segment:

- Further implementation of new technologies and services meeting actual requirements of the users and the market development trends;
- Raising of competitive capacity of modern communication services, including in the sphere of service maintenance, quality and tariff policy;
- Further development of data transfer common networks (multi-service networks) within the Volga Federal District;
- Implementation of universal cards for communication services settlements in all the regions of the Company’s operation;
- Development of special tariffs and provision of package services, including with traditional communication services.

Country and regional risks.

The risks related to political and economic situation in the country and in the region.

Government regulation of telecom industry brings in to the Company’s activity risks and uncertainty common for all Mega-Regional Companies; these risks and uncertainty being connected with the change of tariffs and reduction of volumes of cross-subsidy.

The economic situation in the regions and the relations with authorities of Russian Federation subjects and with local authorities of actually all the regions are developing positively, which influences favorably the Company’s activity and its capacity to perform its obligations.

In future, the reasons of the situation destabilization may be:

- Interference of the government regulatory bodies into Mega-Regional Company’s activity. The Company is strengthening objectively its positions at the market. In addition, the number of management subjects is reduced for the regulatory body. Hence, the consolidated company would attract more attention to its activity.

- Reduction by regional authorities of financing of programs of telephonization of their regions.

Russian market of telecom services is becoming extremely competitive. While the market of traditional wire communication services is upon the whole divided by regional operators and each of them in its region is an absolute monopolist for such services provision, the competition is toughening due to the increase in the share of new communication services and also due to the vigorous activity of the companies providing these services.

The major factors of political risks occurrence are:

- Imperfection of legislative base governing economic relations;
- Insufficient efficiency of judicial system;
- Instability of authority of Russian Federation subjects.

In the first place to regional political risk is referred the change of management in the Volga region, the rise to power of opposition.

The other risk factors that may affect the Company's activity are:

- Short, by this time, period of operation of the consolidated company, as a result of which the Company may encounter the risks and difficulties that are not evident currently;
- Uncertainty in formation of tariffs established by the Federal service for tariffs and their impact on the Company's operations;
- The change of current legislation in the sphere of accounting.

The worsening of political situation in the Volga region may occur in case of essential changes in economic situation in Russia, including drastic changes of national currency rate that may result in the reduction of the number of industrial and agricultural enterprises of all forms of ownership operating in the region, growth of unemployment, slowdown of solvent demand of general public. Such course of events would result in the suspension of the Company's investment program implementation, the reduction of gain of communication services volume provided by the Company on the territory of the region and growth retardation income base. In this case the Company will perform its obligations under the Bonds for account of operations income, and when necessary to borrow short-term loans of commercial banks for these purposes.

Risks related to potential military conflicts, imposing of the state of emergency and strikes in the country (countries) and the region where the Company is registered as a taxpayer and/or carries out core activity:

The probability of occurrence of military conflicts, imposing of the state of emergency and strikes in the country and the region where the Company is registered as a taxpayer and carries out core activity is estimated as insufficient in order to consider these risks as circumstances capable to affect substantially the Company's activity. Such conclusion is confirmed by current level of Russian Federation credit rating, this rating being the investment one.

To minimize the risks of terrorist acts the Company took additional measures for security assurance at the enterprise.

The risks related to geographical features of the country (countries) and of the region where the Company is registered as a taxpayer and/or carries out core activity, including heightened danger of acts of God, potential termination of transport due to remoteness and/or inaccessibility, etc.:

The risks related to geographical features of the region, including heightened danger of acts of God, potential termination of transport due to remoteness and inaccessibility are assessed as minimal.

Industry risks.

The impact of potential deterioration of situation in the industry. The most important changes in the industry.

The competition level in the telecom sector of the Volga Federal district economy is steadily growing.

The toughening of competition with alternative operators in all the branches of OJSC “VolgaTelecom” is observed in the sphere of new services, the Company is still the leader in wire communication. The weakening of the Company’s positions in the area of fixed line telephone communication occurs because of the growth of cellular communication services market.

The Company’s activity may be negatively affected by malfunctions of networks and systems. Any serious breakdown or failure of data transfer by the reasons which are out of the Company’s control may negatively affect the Company’s activity and its financial performances. OJSC “VolgaTelecom” is continuously improving its strategy to overcome the consequences of the events of such kind.

The risks related to the potential change of the cost of raw materials and services.

Liberalization of long-distance communication services will lead to the situation when the Company will act as an agent between long-distance communication carrier and a subscriber of local phone network. The Company will lose the revenues from providing backbone DLD and ILD traffic.

In accordance with new arrangements of interrelations between the carriers, the Company having lost the revenues from DLD and ILD will be receiving:

Revenues from providing intrazonal connection to subscribers;

Revenues from providing DLD and ILD phone connection from payphones;

Revenues from providing technical facilities (other revenues).

Revenues from long-distance communication carriers for transit of outgoing and incoming DLD traffic.

Revenues from long-distance communication carriers for transit of outgoing and incoming ILD traffic.

Revenues from intrazonal traffic transit.

Revenues from connection services (onetime payments).

Revenues from providing the property applied during connection for use.

There are also risk related to the increase of the cost of equipment, electric power and other services (products) that are required for the Company’s operation.

On the one hand it will result in the increase of products (services) prime cost and on the other hand when the Company operates in high competitive environment it may result in the reduction of prices for rendered services which may considerably reduce the Company’s profit.

Upon the whole the impact of industry risks on the Company’s activity is assessed as minimal, as a result of consolidation OJSC “VolgaTelecom” has the opportunity to use unified infrastructure and technical facilities within the Volga Federal district. This allows for providing the widest range of communication services, and also for optimal developing of interregional communication networks in order to reduce the prime cost of services and to raise their profitability.

XI. DATA ON THE COMPANY’S PARTICIPATION IN OTHER ORGANIZATIONS PROVIDING COMMUNICATION SERVICES (THE COMPANY’S EQUITY STAKE IN THE CHARTER CAPITAL OF THESE ORGANIZATIONS IS AT LEAST 10%)

Table 29

№	Organization’s	Core activity**	Equity	Contribu-	Basic performances of activity
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					Number of subscribers/lines	Proceeds, thousand rubles	Net profit, thousand rubles
1	CJSC "NCC"	GSM cellular communication services	100	21629,4	996 675	1698115	444 727
2	CJSC "RTCOM"	AMPS/D-AMPS and GSM cellular communication services	100	20,6	7 640	8 419	- 16 385
3	CJSC "TSI"	Cable TV services	100	10,0	The Company is not carrying out the activity		
4	LLC "Izhcom"	Data transfer services	100	600,0	The Company is in the procedure of liquidation		
					-	2 307	- 804
5	LLC "Nizhny Novgorod Teleservice"	Data transfer, telematic services	100	300,0	295	43 899	2 925
6	CJSC "Digital telecommunications"	Local telephone communication services	100	8,0	The Company is in the procedure of liquidation		
					12 342	29 291	- 3 099
7	LLC "Vyatka-Page"	Paging communication services, intermediary services, installation and maintenance of power equipment and operations service systems, "Solo" domestic radio receivers assembly	100	18,2	-	60 505	589
8	CJSC "Transsvyaz"	Local telephone communication services	80	320,0	5 994	15 550	747
9	OJSC "ICN OMRIX"	Internet, data transfer services	73,6	146,2	476	3 084	192
10	CJSC "Ulyanovsk-GSM"	GSM cellular communication services	60	60,0	178 615	381 826	25 899
11	CJSC "Orenburg-GSM"	GSM cellular communication services	51	102,0	89 307	184 371	32 648
12	OJSC "TATIN-COM-T"	AMPS/D-AMPS and GSM cellular communication services	50+1 ordinary share	170 941,9	293 909	505 827	1 802
13	CJSC "Public telephone Saratov"	Wireless communication services	50+1 preferred share	50,01	63 586	128 185,6	- 523,2
14	CJSC "Saratov-Mobile"	AMPS/D-AMPS and GSM cellular communication services	50	3 300,7	80 355	121 637	- 18 509
15	CJSC "Chery Page"	Paging communication services	50	95,0	The Company is in the procedure of liquidation		
					-	515	-579
16	CJSC "Nizhny Novgorod radiotelephone"	Wireless communication services	50	50,0	1932	15 810	- 5 905
17	CJSC "Nizhegorod-teleservice"	Data transfer, and telematic services	40	1 200	141	13 257	1 605
18	CJSC "Penza-Mobile"	AMPS/D-AMPS and GSM cellular communication services	40	1 210,0	1 409	3 371	- 5 277
19	CJSC "Chuvashiya-	AMPS/D-AMPS and	30	501,9	43 800	36 790	- 16 803

№	Organization's name*	Core activity**	Equity stake in the organization's Charter capital, %	Contribution to Charter capital, thousand rubles	Basic performances of activity		
					Number of subscribers/lines	Proceeds, thousand rubles	Net profit, thousand rubles
	Mobile"	GSM cellular communication services					
20	CJSC "Samara Telecom"	Local telephone communication services	27,8	75,01	10 331	252 680	58 802
21	LLC CPC "N.N.-ROSSVYAZIN-FORM"	Local telephone communication services	20	0,25	5 597	29 279	344
22	LLC "Samara pay phone"	Public telephone communication services	10	10,0	The Company is in the procedure of liquidation		

CJSC "NCC"

Full name: Closed Joint Stock Company "Nizhny Novgorod cellular communication"

Location: Russia, Nizhny Novgorod city, Gorky square, Dom Svyazi

Registration date: 30.03.1995

OJSC "VolgaTelecom" accession year: 1995

Basic activity trends: GSM cellular communication services provision.

CJSC "RTCOM"

Full name: Closed Joint Stock Company "RTCOM"

Location: Russia, Saransk town, Kommunisticheskaya str., 54

Registration date: 24.02.1995

OJSC "VolgaTelecom" accession year: 2005

Basic activity trends: AMPS/D-AMPS and GSM cellular communication services provision.

Material facts as regards participation that occurred in 2005: acquisition of 100% of CJSC "RTCOM" shares.

CJSC "TSI"

Full name: Closed Joint Stock Company "TeleSvyazInform"

Location: Russia, Saransk town, Bolshevistskaya str., 13

Registration date: 15.12.1999

OJSC "VolgaTelecom" accession year: 1999

Basic activity trends: Does not carry out the activity since the date of its establishment.

LLC "Izhcom"

Full name: Limited Liability Company "Izhcom"

Location: Russia, Izhevsk city, Pushkinskaya str., 278

Registration date: 10.02.1994

OJSC "VolgaTelecom" accession year: 1994

Basic activity trends: Implementation of measures for liquidation.

LLC "Nizhny Novgorod Teleservice"

Full name: Limited Liability Company "Nizhny Novgorod Teleservice"

Location: Russia, Nizhny Novgorod city, Maxim Gorky square, Dom Svyazi

Registration date: 25.12.2000

OJSC "VolgaTelecom" accession year: 2005

Basic activity trends: Data transfer and telematic services provision

Material facts as regards participation that occurred in 2005: acquisition of equity stake in the amount of 100% of the authorized capital of LLC “Nizhny Novgorod Teleservice”.

CJSC “Digital telecommunications”

Full name: Closed Joint Stock Company “Digital telecommunications”

Location: Russia, Cheboksary town, Shumilov str., 20

Registration date: 17.04.1996

OJSC “VolgaTelecom” accession year: 1996

Basic activity trends: Local telephone communication services provision, implementation of measures for liquidation.

LLC “Vyatka-Page”

Full name: Limited Liability Company “Vyatka-Page”

Location: Russia, Kirov city, Drelevsky str., 43/1

Registration date: 24.10.1996

OJSC “VolgaTelecom” accession year: 1996

Basic activity trends: Paging communication services provision, cleaning services, payments acceptance, installation and maintenance of power equipment, domestic radio receivers’ assembly, wholesale and retail trade.

Material facts as regards participation that occurred in 2005: as a result of reduction of LLC “Vyatka-Page” authorized capital by balance-sheet stake retirement, OJSC “VolgaTelecom” equity stake grew from 91% to 100%.

CJSC “Transsvyaz”

Full name: Closed Joint Stock Company “Transsvyaz”

Location: Russia, Nizhny Novgorod city, Chaadaev str., 2

Registration date: 03.06.1997

OJSC “VolgaTelecom” accession year: 1997

Basic activity trends: Local telephone communication services provision and construction of cable line communication facilities.

OJSC “ICN OMRIX”

Full name: Open Joint Stock Company “Information Commercial Networks “OMRIX”

Location: Russia, Orenburg city, Tereshkova str., 10

Registration date: 21.12.1991

OJSC “VolgaTelecom” accession year: 1991

Basic activity trends: Internet, data transfer services provision

CJSC “Ulyanovsk-GSM”

Full name: Closed Joint Stock Company “Ulyanovsk-GSM”

Location: Russia, Ulyanovsk city, L.Tolstoy str., 60

Registration date: 05.05.1998

OJSC “VolgaTelecom” accession year: 1998

Basic activity trends: GSM cellular communication services provision

CJSC “Orenburg-GSM”

Full name: Closed Joint Stock Company “Orenburg-GSM”

Location: Russia, Orenburg city, Volodarskyi str., 11

Registration date: 01.07.1996

OJSC “VolgaTelecom” accession year: 1996

Basic activity trends: GSM cellular communication services provision

OJSC “TATINCOM-T”

Full name: Open Joint Stock Company "TATINCOM-T"

Location: Russia, Kazan city, Lomzhinskaya str., 20A

Registration date: 28.11.1997

OJSC "VolgaTelecom" accession year: 2003

Basic activity trends: AMPS/D-AMPS and GSM cellular communication services provision, premises provision for rent.

CJSC "Public telephone Saratov"

Full name: Closed Joint Stock Company "Public telephone Saratov"

Location: Russia, Saratov city, Kiselev str., 40

Registration date: 09.09.1998

OJSC "VolgaTelecom" accession year: 1998

Basic activity trends: Local telephone communication services provision by using radio access facilities.

CJSC "Nizhny Novgorod radiotelephone"

Full name: Closed Joint Stock Company "Nizhny Novgorod radiotelephone"

Location: Russia, Nizhny Novgorod city, Gorky square, Dom Svyazi

Registration date: 26.08.1999

OJSC "VolgaTelecom" accession year: 1999

Basic activity trends: Local telephone communication services provision by using radio access facilities.

CJSC "Saratov - Mobile"

Full name: Closed Joint Stock Company "Saratov – Mobile"

Location: Russia, Saratov city, Kiselev str., 40

Registration date: 19.09.1995

OJSC "VolgaTelecom" accession year: 1995

Basic activity trends: AMPS/D-AMPS and GSM cellular communication services provision

CJSC "Chery Page"

Full name: Closed Joint Stock Company "Chery Page"

Location: Russia, Cheboksary town, K.Ivanov str., 83

Registration date: 14.10.1994

OJSC "VolgaTelecom" accession year: 1994

Basic activity trends: Paging communication services provision, implementation of measures for liquidation.

CJSC "Nizhegorodteleservice"

Full name: Closed Joint Stock Company "Nizhegorodteleservice"

Location: Russia, Nizhny Novgorod city, Gorky square, Dom Svyazi

Registration date: 26.02.1997

OJSC "VolgaTelecom" accession year: 1997

Basic activity trends: Data transfer and telematic services provision

CJSC "Penza – Mobile"

Full name: Closed Joint Stock Company "Penza – Mobile"

Location: Russia, Penza city, Kuprin str., 1/3

Registration date: 31.07.1995

OJSC "VolgaTelecom" accession year: 1995

Basic activity trends: AMPS/D-AMPS cellular communication services provision

CJSC “Chuvashiya – Mobile”

Full name: Closed Joint Stock Company “Chuvashiya – Mobile”

Location: Russia, Cheboksary town, K.Ivanov str., 83

Registration date: 06.01.1995

OJSC “VolgaTelecom” accession year: 1994

Basic activity trends: AMPS/D-AMPS and GSM cellular communication services provision.

CJSC “Samara Telecom”

Full name: Closed Joint Stock Company “Samara Telecom”

Location: Russia, Samara city, Polevaya str., 43

Registration date: 29.03.1996

OJSC “VolgaTelecom” accession year: 1996

Basic activity trends: Local telephone communication services provision.

LLC CPC “N.N.-ROSSVYAZINFORM”

Full name: Limited Liability Company Commercial-Production Company “N.N.-ROSSVYAZINFORM”

Location: Russian Federation, Nizhny Novgorod city, M.Gorky square, Dom Svyazi

Registration date: 01.04.1992

OJSC “VolgaTelecom” accession year: 1992

Basic activity trends: Local telephone communication services provision.

LLC “Samara pay phone”

Full name: Limited Liability Company “Samara pay phone”

Location: Russia, Samara city, Penzenskaya str., 68

Registration date: 23.01.1998

OJSC “VolgaTelecom” accession year: 1998

Basic activity trends: LLC “Samara pay phone” is in the procedure of liquidation since 2001.

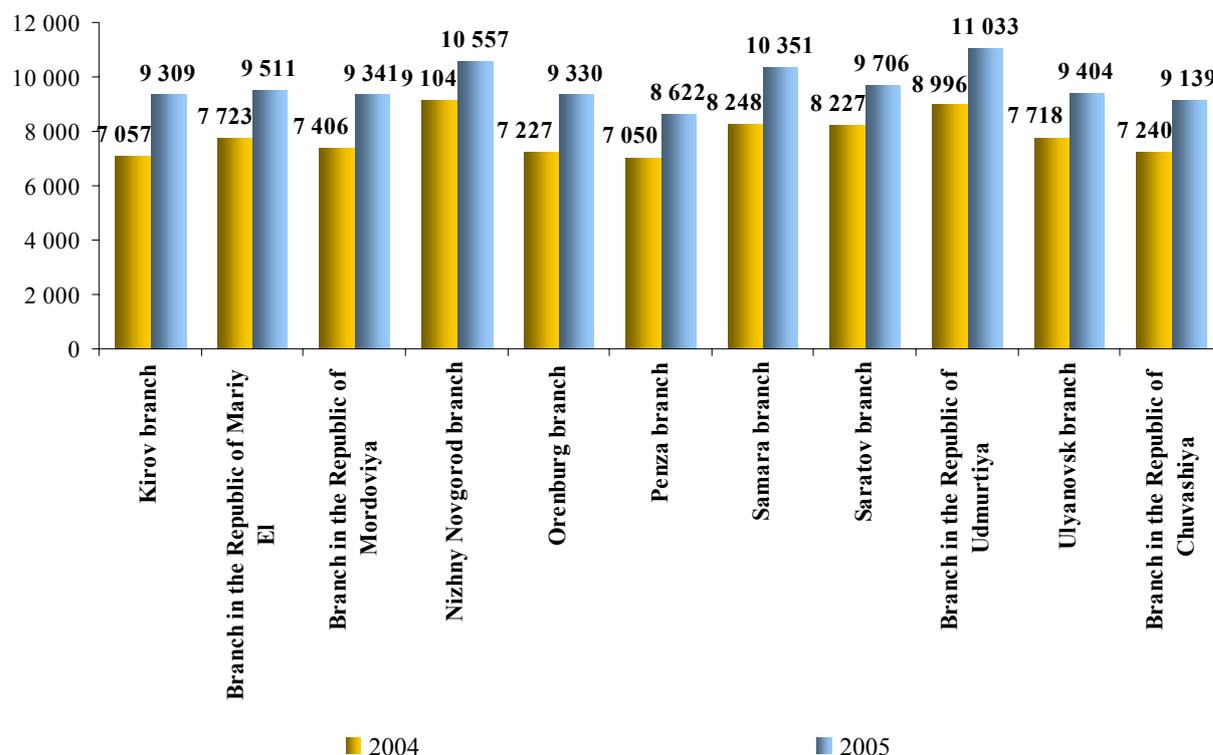
XII. PERSONNEL DEVELOPMENT

12.1. Labor and wages.

In 2005 the average monthly wages of OJSC “VolgaTelecom” employees amounted to 10 110 rubles, with increase vs. the previous year by 23,7%. During the year the work on balancing the wages among the branches was continued. This is confirmed by the following figures: the wages were raised in Kirov branch by 31,9%, in branch in the Republic of Mariy El - by 23,2%, in branch in the Republic of Mordoviya by 26,1 %, in Nizhny Novgorod branch - by 16,0%, Orenburg branch - by 29,1%, in Penza branch - by 22,3%, in Samara branch - by 27,7%, in Saratov branch - by 18,0%, in the Republic of Udmurtiya branch - by 22,6%, in Ulyanovsk branch - by 21,8%, in branch in the Republic of Chuvashiya – by 26,2%. The wage fund increased vs. 2004 by 20,0% and in 2005 amounted to 5778950 thousand rubles.

Average monthly wages of an employee with respect to OJSC “VolgaTelecom” branches for 2005.

Chart 11



In 2006 the growth of average wage as compared to 2005 should amount to 108,4 % and make up 10 959 rubles.

In 2005 great attention was paid to the issue of ensuring social protection of the Company’s employees, observance of labor guarantees and safety arrangements and precautions. So, social benefits in the reporting year amounted to 120160,3 thousand rubles with the increase of 127,2% vs. the previous year.

Social benefits paid to employees for 2004-2005.

Table 30

Name	Social benefits per an employee (rubles)		
	2005	2004	%
Kirov branch	132,3	93,5	141,5
Branch in the Republic of Mariy El	75,9	72,3	105,0
Branch in the Republic of Mordoviya	310,7	230,6	134,7
Nizhny Novgorod branch	287,7	240,7	119,5
Orenburg branch	122,1	162,2	75,2
Penza branch	113,0	57,5	196,5
Samara branch	102,5	99,7	102,8
Saratov branch	320,0	201,3	159,0
Branch in the Republic of Udmurtiya	159,3	139,2	114,5
Ulyanovsk branch	228,1	199,1	114,6
Branch in the Republic of Chuvashiya	184,1	133,5	137,9
OJSC “VolgaTelecom”	210,2	160,3	131,1

In 2005 in all the branches current bonus payments were made to the employees by the results of financial and economic activity. The bonus was paid at achievement of established indexes and at fulfillment of bonuses terms and conditions in accordance with effective provisions on paying bonuses to branches. The amounts of bonuses were defined on the basis of available funds for bonuses payment.

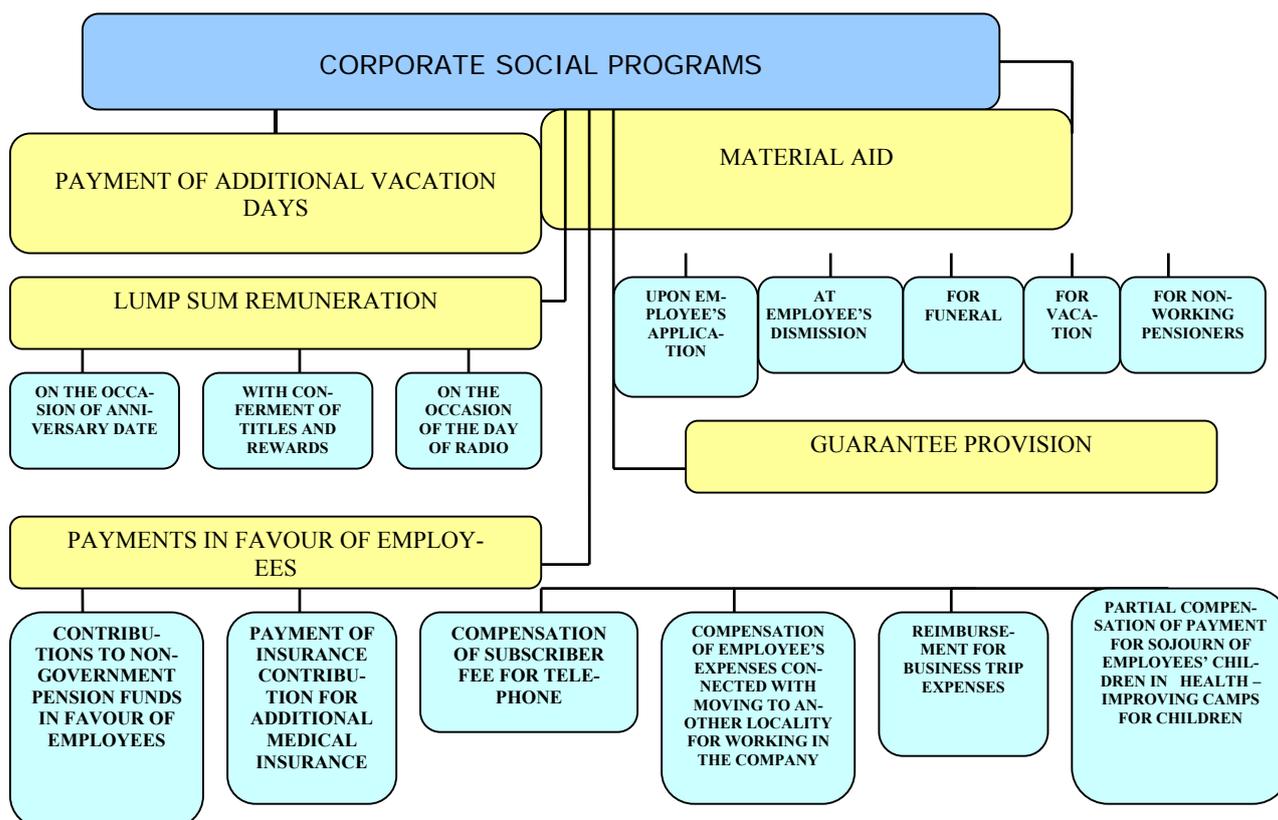
In 2005 General directorate employees were paid bonuses according to the new system of bonus payments to personnel on the basis of management by objectives aimed at increasing incentive and achieving high production indexes.

In quarter 4 of 2005 the Provision on bonus payments to the employees of the branches was elaborated and approved, it came into effect since February 1, 2006. This Provision is universal, as it covers all the categories of employees - from workers to chiefs, and provides unified approach to incentive system.

One of important events in the Company's operation at the end of 2005 - beginning of 2006 was the signature of common Union agreement of OJSC "VolgaTelecom" for 2006-2008. The contract signing was the final stage of establishment of interregional company. The basic goals at concluding the common Union agreement were:

- optimization of the size of expenses for personnel,
- ensuring the interest of employees in the products of labor, i.e. in the results of the Company's activity,
- ensuring compliance with government requirements and satisfaction of the Company's social environment.

Chart 12



The signature of the Union agreement establishes favorable conditions contributing to dynamic development of the Company, increases in the level of social and labor guarantees of em-

ployees, optimizes the amount of expenses for personnel. Each employee of the Company has acquired equal rights and opportunities.

12.2. Management structure improvement.

Within the framework of the unification project of the names of the Company's subdivisions and posts, OJSC "VolgaTelecom" Management board (minutes № 24 of 29.06.2005) approved unified organization structure of branches, where:

- functional verticals of hierarchic subordination by activity trends are uniform for all the branches;
- management functions are separated from production functions;
- all the names of structural subdivisions are adjusted in accordance with corporate reference book.

In December 2005 General Director approved the organizational structures of the Company's branches, in the specified structures the names of subdivisions are adjusted in accordance with corporate reference book. The names of joint electric communication centers and of electric communication centers, being the parts of the joint electric communications centers, are unified. Unprofitable electric communication centers are liquidated and their functions are transferred to larger local electric communication centers in the branches in the Republic of Mordoviya, Saratov, Samara, Ulyanovsk branch. The materials are prepared for the establishment of consolidated structural subdivisions, assuming the division of functions by basic and auxiliary functions, in Orenburg branch - Orenburg telecommunication networks (OTN) and the Center of auxiliary servicing of subdivisions (CASS). The same work is carried out in the branch in the Republic of Mariy El.

The employees of staff departments (services) of all the branches have done considerable work connected with unification of staff schedules, notification of the employees and their transfer to new posts. Starting from January 1, 2006 unified staff schedules of structural subdivisions in Nizhny Novgorod branch, branch in the Republic of Mordoviya, branch in the Republic of Udmurtiya are put in effect. Thus, necessary work has been done for the commissioning of the first release of Master-system of section "Staff".

The work on staff number optimization is being permanently carried out in the Company. As a result of measures carried out the staff on the payroll decreased by 3,0 % (at scheduled decrease in number by 2,3 %) and amounted to 47634 men. The largest reduction occurred in Kirov branch – 5,3%, in Samara branch – 4,9 % and in Orenburg branch – 4,1%. The basic measures of staff number optimization in 2005 were:

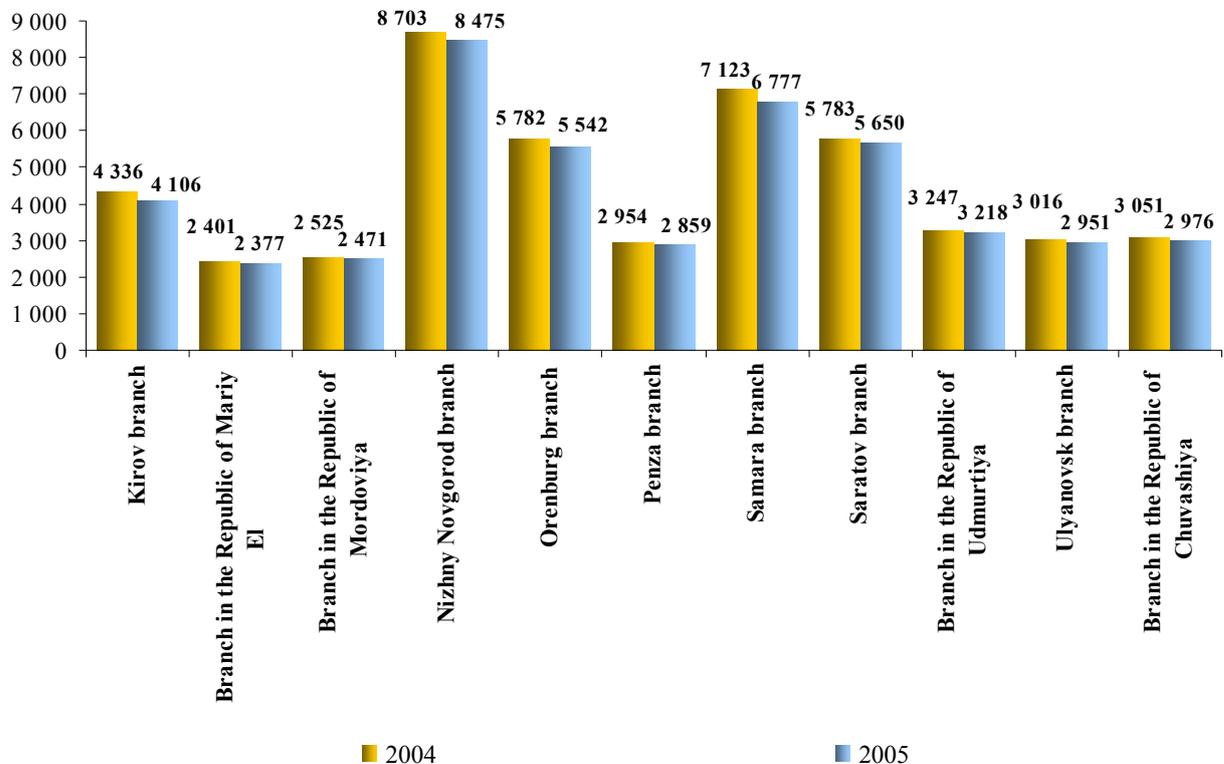
- Replacement of analog equipment and step-by-step decimal equipment with electronic and digital - 252 units;
- Transfer of functions: security, cable and other dispatches delivery, sweep-up to third parties - 750 units;
- Improvement of labor organization and labor rate setting (automation of work places, compaction of labor hours, combining of professions, change of operating mode and others) - 457 units.

The changes and additions to the Provision on OJSC "VolgaTelecom" branch are approved by the decision of the Board of directors of 09.09.2005; in accordance with the Provision the authority to approve staff schedules of branches and regulatory documents, governing the issues of labor remuneration and incentive, is transferred to the Company represented by its General Director. In quarter 3 staff schedules of administrative staff of the branches are approved, which resulted in the decrease in the administrative staff number by 6,1%.

Staff on the payroll scheduled for 2006 - 44966 men.

OJSC “VolgaTelecom” staff on the payroll.

Chart 13



12.3. Staff relations.

Staff training and development.

One of the functions of OJSC “VolgaTelecom” staff policy is personnel training. The organization of permanent training, permanent improving of qualification, and development of the Company’s employees is one of basic tasks of Human Resources Department.

The main types of staff qualification improvement remain:

- Internal education in Training Centers of the Company’s branches;
- External education comprising short-term target courses, refresher courses, training in educational institutions of OJSC “Svyazinvest”, Ministry of information and communication, and training abroad;
- Technical on-site training;
- Education.

Summarizing the results of the year, it is necessary to make a note of the increase in the number of employees having passed the training and the enlargement of the topics of internal and external courses. In 2005 the number of the Company’s employees who had improved their qualification and received the education amounted to 23060 persons. The share of trained employees in the total staff number amounted to 49%, which exceeds by 18% the data of 2004. Total expenses for training and development of the Company’s staff amounted to 65,4 million rubles, which amounts to 157% vs. 2004 level.

Within the framework of realization of plan of introducing unified enterprise management information system on the basis of Oracle EBS, 581 system users were trained in 2005.

The training of more than 23000 employees of the Company is scheduled for 2006. 83 million rubles will be allocated to realize training programs.

Work with non-government pension fund.

From January 1, 2005 within the framework of common agreement № 12/2004-BIO of 24.12.2004 two Programs of non-government retirement insurance (NRI) of the Company's employees by means of Non-government pension fund "Telecom-Soyuz" (hereinafter - Fund) are in effect:

Program №1 - basic, program №2 – basic-accumulative, which assumes concluding individual NRI contracts between an employee and the Fund.

As of 31.12.2005 in the Company there are:

- 9 353 individual NRI contracts by program №2 were concluded;
- non-government pensions granted to 149 former employees of the Company by program № 1;
- non-government pensions granted to 1 058 former employees of the Company by program № 2.

Total amount transferred in 2005 to retirement accounts and for ensuring the core activity of the Fund is 262380,4 thousand rubles.

Contractual relations which existed between the Company and NPF "Telecom-Soyuz" before January 1, 2005 were reorganized by means of signing unified NRI contract № 11/2004-BIO of 24.12.2004, i.e. all NRI contracts concluded in different times by the Company's seven branches and NPF "Telecom-Soyuz" were consolidated.

NRI contracts between the Company and NPF "Doverie" effective earlier are cancelled since January 01, 2005.

As of 31.12.2005 the number of participants of the Fund under NRI contract № 11/2004-BIO made up 2 237 persons.

As of 31.12.2005 3 444 former Company's employees are receiving non-government pension of NPF "Telecom-Soyuz".

Industrial accident insurance.

In September 2005 OJSC "VolgaTelecom" management adopted the decision on cooperation with CJSC "Insurance Company "Costars" for voluntary collective insurance of employees against industrial accidents.

Personnel rating

In 2005 289 persons were appraised, out of them 18 persons were recognized as not meeting the requirements of occupied position (the rating was carried out in Kirov, Orenburg, Penza branches, branch in the Republic of Mariy El and branch in the Republic of Udmurtiya). One of the main tasks of human resources department for 2006 is appraisal of chiefs, experts and salaried workers.

Projects.

In 2005 pilot project on simulation of competencies of the employees of the Company's General directorate and of regional branches' administrative staff was realized in OJSC "VolgaTelecom". The objective of the pilot project was to form the list of functional and business competencies, which provided the basis for elaboration of model of competencies for electric communication companies' employees. The model of competencies was tested and "Profession-

alism” competency was examined by the experts of functional trends of the General directorate and the administrative staff of the branches.

In 2005 the work was started on elaboration of uniform system of labor remuneration and incentive (SLR&I). Consultants of Open Joint Stock Company “Borlas-ABC” elaborated SLR&I Concept and in July 2005 on the basis of OJSC “VolgaTelecom” acting as the pilot company, SLR&I regulatory documents were elaborated – standard Union agreement, provisions on social programs, labor contract form, list of salary accountings. The work was done on adjustment of the Concept to the budgeting system existing in the Company.

Awarding.

For 2005 the employees were singled out for reward and conferment of titles of honor:

- State awards - 2 persons
- “Honorary radio operator” sign -11 persons;
- “Master of communication” title was conferred to 82 persons.

XIII. INFORMATION ABOUT THE COMPANY’S BODIES

- General meeting of stockholders – supreme management body of the Company;
- The Board of directors;
- General Director;
- Management board;
- Auditing committee.

13.1. The Board of directors.

Information about the Company’s Board of directors:

1. *The structure of the Board of directors functioning before annual general meeting of shareholders in 2005:*

1. Yurchenko Evgenyi Valerievich
2. Lyulin Vladimir Fedorovich
3. Andreev Vladimir Alexandrovich
4. Bobin Maxim Victorovich
5. Grigorieva Alla Borisovna
6. Degtyarev Valeryi Victorovich
7. Dudchenko Vladimir Vladimirovich
8. Romskiy Georgiy Alexeevich
9. Savchenko Victor Dmitrievich
10. Fedorov Oleg Romanovich
11. Chernogorodskiy Sergey Valerievich

2. *Quantitative and personal structure of operating Board of directors:*

The Board of directors is the Company’s collegial management body carrying out general management of the Company’s activity.

The Company’s Board of directors is elected annually by the annual general meeting of shareholders with the structure of 11 persons by cumulative voting.

At the annual general meeting of shareholders held on June 28, 2005 the Board of directors was elected in the following structure:

Table 31

№	Surname, name and patronymic name	Date of birth	Education	Place of employment and work status	Other posts held	Citizenship	Possession of shares during the reporting year	Length of work in OJSC "VolgaTelecom" Board of directors
1.	Belyaev Konstantin Vladimirovich	1968	Postsecondary education, All-Russia corresponding finance & economics institute.	Chairman of the Company's Board of directors, deputy to the General Director of OJSC "Svyazinvest"	<u>Member of the Board of directors of:</u> Interregional commercial bank of development of communication and informatics (OJSC), OJSC "North-West Telecom", OJSC "Southern Telecommunication Company" <u>Member of the Management board of:</u> OJSC "Svyazinvest" OJSC "Rostelecom" <u>Chairman of the Auditing committee of:</u> OJSC "CenterTelecom", OJSC "Sibirtelecom" <u>Member of the Auditing committee of:</u> OJSC "MGTS"	RF	Does not possess the Company's shares	Since 2005
2.	Andreev Vladimir Alexandrovich	1951	Postsecondary education, Kuibyshev electronic technical institute of communication	Rector of Povolzhskiy state academy of telecommunications and informatics	none	RF	Does not possess the Company's shares	Since 2004
3.	Bobin Maxim Viktorovich	1975	Postsecondary education, Moscow State Institute for International Relations, PhD (legal sciences)	Chief of legal department of Moscow representation office of "NCH Advisors, Inc."	<u>Member of the Board of directors of:</u> OJSC "SibirTelecom" OJSC "Management company Kirovenergo", OJSC "Smolenskenergobyt", OJSC "Vladimir energy producer", OJSC "Penza energy man-	RF	Does not possess the Company's shares	Since 2003

№	Surname, name and patronymic name	Date of birth	Education	Place of employment and work status	Other posts held	Citizenship	Possession of shares during the reporting year	Length of work in OJSC "VolgaTelecom" Board of directors
					agement company"			
4.	Bulanča Sergey Anatolievich	1959	Postsecondary education, Odessa electronic technical institute of communication after A.S.Popov	Deputy to the head of Federal Agency of Communications	<u>Member of the Board of directors of:</u> OJSC "Giprosvyaz"	RF	Does not possess the Company's shares	Since 2005
5.	Grigorieva Alla Borisovna	1967	Postsecondary education, Alma-Ata institute of national economy	Deputy to the director – chief of the sector of the Department of corporate governance of OJSC "Svyazinvest"	<u>Member of the Board of directors of:</u> OJSC "Uralsvyazinform"	RF	Preferred registered shares - 2 000 Ordinary registered shares - 2 007	Since 1996
6.	Degtyarev Valeryi Victorovich	1957	Postsecondary education, Omsk institute of engineers of railroad transportation; Saint-Petersburg state university of economics and finances, Ph.D. (engineering), Ph.D. (economics)	General Director of CJSC "Professional Telecommunications"	<u>Member of the Board of directors of:</u> CJSC "Professional Telecommunications", CJSC Radiotel", OJSC "CenterTelecom", OJSC "Dalsvyaz", OJSC "Rostelecom"	РФ	Does not possess the Company's shares	Since 2004
7.	Kuznetsov Sergey Ivanovich	1953	Postsecondary education, North-West corresponding polytechnic institute; Columbia university business school (NY); Business school of Fuke university of business management	First deputy to the General Director of OJSC "Svyazinvest"	<u>Member of the Board of directors of:</u> OJSC "Telecominvest", OJSC "Rostelecom" OJSC "CenterTelecom", <u>Chairman of the Board of directors of:</u> OJSC "Southern Telecommunication Company", OJSC "Uralsvyazinform" OJSC "Sibirtelecom", OJSC "Dalsvyaz", OJSC "Central telegraph" <u>Member of the Manage-</u>	RF	Does not possess the Company's shares	Since 2005

№	Surname, name and patronymic name	Date of birth	Education	Place of employment and work status	Other posts held	Citizenship	Possession of shares during the reporting year	Length of work in OJSC "VolgaTelecom" Board of directors
					ment board of: OJSC "Svyazinvest"			
8.	Kulikov Denis Victorovich	1975	Postsecondary education, Moscow state legal academy	Expert of Association for investors rights protection	<u>Member of the Board of directors of:</u> OJSC "Pechorskaya state regional power station", OJSC "Cherepetskaya state regional power station", OJSC "Penza generating company", OJSC "Southern Telecom Company"	RF	Does not possess the Company's shares	Since 2005
9.	Slizen Vitalyi Anatolievich	1970	Postsecondary education, Military engineering institute after Mozhaisky	Director of the Department of state policy in info communications technologies of the Ministry of Information and Communication of Russia	<u>Member of the Board of directors of:</u> OJSC "Giprosvyaz", OJSC "Rostelecom", OJSC "Dalsvyaz", OJSC "Dagsvyazinform"	RF	Does not possess the Company's shares	Since 2005
10.	Fedorov Oleg Romanovich	1968	Postsecondary education, Moscow State University after M.V. Lomonosov	Executive director of corporate finances department of CJSC "Joint financial group"	<u>Member of the Board of directors of:</u> Association for investors rights protection	RF	Does not possess the Company's shares	Since 2003
11.	Chernogorodskiyi Sergey Valerievich	1977	Postsecondary education, Moscow State Institute for International Relations; Moscow higher school of social and economic relations; Manchester university	Director of the Department of joint-stock capital of OJSC "Svyazinvest"	<u>Member of the Board of directors of:</u> OJSC "Uralsvyazinform"	RF	Does not possess the Company's shares	Since 2003

3. Data on independent directors present in the structure of the Board of directors.

There are 3 independent directors in the structure of the Board of directors: Bobin M.V., Kulikov D.V., Fedorov O.R.

In 2005 the Board of directors' structure was elected once in accordance with annual general shareholders meeting held on June 28, 2005.

4. Data on remuneration of the Board of directors' members (criteria of defining and individual size of remuneration (reimbursement of expenses) of the members of the Company's Board of directors), the specified remuneration being paid in the reporting year.

The members of the Company's Board of directors during the performance of their duties are paid remuneration and compensations for expenses related to the performance of their duties of the members of the Board of directors.

Remuneration to the members of the Board of directors consists of quarterly and annual one.

Quarterly remuneration to each member of the Board of directors is established in the amount of 200 000 rubles.

The remuneration of the Board of directors' Chairman is established with the coefficient 1,5.

Quarterly remuneration of a member of the Board of directors is decreased by:

30% - in case of his (her) presence at less than half of sessions of the Board of directors held in the form of joint attendance;

100% - if he (she) participated in less than half of all held sessions of the Board of directors.

For the quarter, in which the re-election of the Board of directors occurred, the remuneration to a member of the Board of directors is paid proportionally to the time worked in this quarter.

Annual remuneration for the entire structure of the Company's Board of directors is established as the sum of deductions according to rates (percent):

- of the Company's EBITDA by IFRS accounting statement data for the reporting year;

- of the Company's net profit by the results of the reporting year, allocated to the payment of dividends.

Annual remuneration is distributed among all members of the Board of directors in equal shares.

Annual remuneration of a member of the Board of directors is decreased by 50% in case of his (her) participation in less than half of all Board of directors sessions held during the period of his/her term of office.

The rates (percent) of deductions for the calculation of annual remuneration are defined by the resolution of the shareholders general meeting electing the specified structure of the Board of directors.

Annual remuneration to a member of the Board of directors is paid not later than 3 months after the termination of the term of office of the specified Board of directors' structure.

The Board of directors' members who are the members of the Company's Board of directors committee, are paid an increment to quarterly remuneration, connected with performance by them of their functions of the Board of directors committees' members, in the amount of 40 000 rubles (for the participation in each Committee), herewith the Board of directors' member may not be in more than two Board of directors' committees simultaneously.

For the Chairman of a committee of the Board of directors the specified increment is established with coefficient of 1,25.

The Board of directors' members are entitled to participate in option programs carried out by the Company.

According to the resolution of the annual general meeting of shareholders of June 28, 2005, (minutes № 5), the following rates (percent) of deductions are approved for calculating

annual remuneration to the Board of directors' members being elected at the specified annual general meeting of shareholders:

- in the amount of 0,115 % (one hundred fifteen thousandth of percent) of the Company's EBITDA by IFRS accounting statement data for 2005;
- in the amount of 0,164% (one hundred sixty four thousandth percent) of the Company's net profit for 2005 allocated to the payment of dividends.

5. Data on availability and the structure of the committees with the Board of directors.

On July 28, 2005 the Committees were established with the following structure:

· Corporate governance committee

1. Grigorieva Alla Borisovna - The Committee's Chairman
2. Bobin Maxim Victorovich
3. Evdokimov Andrey Vladimirovich
4. Omelchenko Sergey Valerievich
5. Fedorov Oleg Romanovich

Strategic development committee

1. Kuznetsov Sergey Ivanovich - The Committee's Chairman
2. Andreev Vladimir Alexandrovich
3. Degtyarev Valeryi Victorovich
4. Omelchenko Sergey Valerievich
5. Fedorov Oleg Romanovich

· Staff and rewards committee

1. Bobin Maxim Victorovich - The Committee's Chairman
2. Grigorieva Alla Borisovna
3. Kulikov Denis Victorovich
4. Chernogorodskiy Sergey Valerievich

· Committee for audit

1. Degtyarev Valeryi Victorovich - The Committee's Chairman
2. Kulikov Denis Victorovich
3. Chernogorodskiy Sergey Valerievich

The remuneration of the members of the Company's Board of directors for 2005 amounts to 20 016 696 rubles.

6. Data on transactions on acquisition or carve-out of the Company's shares during the reporting year by the members of the Company's Board of directors (in accordance with the order of FSFM of March 16, 2005 № 05-5/ПЗ-Н).

The members of the Company's Board of directors did not make transactions of acquisition or carve-out of OJSC "VolgaTelecom" shares during the reporting year (in accordance with the order of FSFM of March 16, 2005 № 05-5/ПЗ-Н).

13.2. General Director.

1. Data on the person holding the post of the single executive body.

General Director is the single executive body carrying out management of the Company's current activity. The General Director is appointed by the Company's Board of directors.

Omelchenko Sergey Valerievich was appointed General Director of OJSC "VolgaTelecom" in April 2005.

Omelchenko Sergey Valerievich was borne in 1963.

In 1984 he graduated from Novocherkassk higher military command academy, qualification – electric conduction communication facilities exploitation.

From 1980 till 1991 he served in RF Armed forces.

After termination of military service he started his activity in Bataisk town of Rostov oblast as an installer of small enterprise “Module”; in 1993 -1997 he headed the linearly repair team of Technical trunk communication center-3, worked as the chief expert of the wire trunk service of Territorial center for DLD communications and television-9, from 1997 till 2002 he was chief engineer, and later - the director of Technical trunk communication center-3.

From January 2002 till April 2005 when he was appointed OJSC “VolgaTelecom” General Director he headed the Volga branch of OJSC “Rostelecom”.

Being at the head of OJSC “VolgaTelecom”, Omelchenko Sergey Valerievich showed himself as energetic leader of principle, capable of fudging the collective. Having large practical experience he actively resolves the issues of further development of telecommunication in the region, of increasing the quality of communication facilities operation, improvement of labor conditions, assuring profit receipt and social protection of employees.

Criteria of definition and the size of remuneration of the Company’s General Director are stipulated by terms and conditions of the labor contract.

The amount of payments made to the Company’s General Director for 2005 - 7 738 946 rubles (exclusive of his remuneration as the member of the Management board).

2. Data on transactions on acquisition or carve-out of the Company’s shares during the reporting year by the Company’s General Director (in accordance with the order of FSFM of March 16, 2005 № 05-5/ПЗ-Н).

The Company’s General Director did not make transactions of acquisition or carve-out of OJSC “VolgaTelecom” shares during the reporting year (in accordance with the order of FSFM of March 16, 2005 № 05-5/ПЗ-Н).

13.3. Management board.

Information about the Company’s Management board:

The Management board is a collegial executive body organizing the fulfillment of resolutions of stockholders general meeting and of the Company’s Board of directors.

The purpose of the Management board operation is to assure the Company’s effective activity of profit deriving. The Company’s Management board elaborates motions on the basic trends of the Company’s activity, including on the drafts of annual budget, budgets for medium-term and long-term perspective, strategies and programs of development of the Company, motions on introducing changes into the specified documents, approves the procedures of internal control; defines staff and social policy of the Company, prepares materials and drafts of resolution on issues subject to consideration at the shareholders general meeting, defines technical, financial-economic and tariff policy of the Company and other issues referred to its competence.

The Management board elaborates materials and presents them to the Company’s Board of directors, to the Committees established with the Board of directors in accordance with approved plans of operation, and also under the instructions of the Board of directors.

In 2005 the Company’s Management board held 39 sessions at which 241 issues were considered.

1. Quantitative and individual structure of current Management board.

Quantitative and individual structure of the Management board is defined by the resolution of the Company’s Board of directors following the proposal of the General Director, members of the Company’s Board of directors.

On June 12, 2005 the Board of directors upon the recommendation of the General Director formed the Company’s Management board to the number of 9 persons in the following structure:

- Omelchenko Sergey Valerievich

- Ganeeva Alla Albertovna
- Grigorieva Lyubov Ivanovna
- Dyakonov Mikhail Vasilievich
- Kirillov Alexander Ivanovich
- Kormilitsyna Lyudmila Alexeevna
- Pozdnyakov Denis Vyacheslavovich
- Popkov Nikolai Ivanovich
- Sipatova Taisiya Mikhailovna

On October 6, 2005 according to the resolution of the Board of directors the authority of Grigorieva L.I. and Sipatova T.M. were early terminated, and Astakhova S.L. and Petrov M.V. were appointed the members of OJSC “VolgaTelecom” Management board.

**Quantitative and individual structure of the Company’s Management board,
as of December 31, 2005.**

Table 32

№	Surname, name and patronymic name	Year of birth	Education	Place of employment and work status	Time of post holding	Other posts held in the Company and other organizations	Shares possession
1.	Omelchenko Sergey Valerievich	1963	Postsecondary education, Novocherkassk higher military command academy.	Chairman of the Management board – General Director of the Company	Since 2005	CJSC “Orenburg –GSM”- Chairman of the Board of directors, CJSC “NCC” - Chairman of the Board of directors, OJSC “TATINCOM – T” - member of the Board of directors	Does not possess the Company’s shares
2.	Astakhova Svetlana Leonidovna	1974	Postsecondary education, All-union corresponding financial and economic institute; Nizhny Novgorod state university after N.I. Lobachevsky (MBA)	Deputy to the General Director of the joint-stock company – personnel director	Since 2005	None	Does not possess the Company’s shares
3.	Ganeeva Alla Albertovna	1951	Postsecondary education, Moscow electronic technical institute of communication	Head of section of technical operation of networks of electric communication department of OJSC “Svyazinvest”	Since 2000	OJSC “Dalsvyaz” – Member of the Management board, CJSC “Novocom” – member of the Auditing committee	Does not possess the Company’s shares
4.	Dyakonov Mikhail Vasilievich	1954	Postsecondary education, Mordovian state university after N.P. Ogarev	Deputy to the General Director of the joint-stock company for capital construction	Since 1999	None	Does not possess the Company’s shares
5.	Kirillov Alexander Ivanovich	1956	Postsecondary education, Mariy polytechnic institute after M.Gorky	First deputy to the General Director of joint-stock company – Technical director	Since 2004	CJSC “Ulyanovsk – GSM” – Chairman of the Board of directors (since 21.06.05), OJSC “TATINCOM – T” – member of the Board of directors (from 30.06.05 till 24.08.05)	Ordinary registered shares - 215403 Preferred registered shares - 3 686
6.	Kormilitsyna Lyudmila Alexeevna	1955	Postsecondary education, Moscow electronic technical institute of communication	Deputy to the head of section for providing the activity of representatives of corporate governance department of OJSC “Svyazinvest”	Since 2005	None	Does not possess the Company’s shares
7.	Petrov Mikhail Victorovich	1973	Postsecondary education, Saratov technical university	Deputy to the General Director of the joint-stock company	Since 2004	OJSC “TATINCOM-T” – Chairman of the Board of directors, CJSC “RTCOM” - Chairman of the Board of directors, CJSC “Orenburg-GSM» - member of Board of directors, CJSC “Ulyanovsk - GSM» -	Does not possess the Company’s shares

№	Surname, name and patronymic name	Year of birth	Education	Place of employment and work status	Time of post holding	Other posts held in the Company and other organizations	Shares possession
						Before 21.06.05 – Chairman of the Board of Directors; since 21.06.05 - member of the Board of directors, CJSC “Saratov – Mobile” - member of the Board of directors, CJSC “NCC” - member of the Board of directors	
8.	Pozdnyakov Denis Vyacheslavovich	1976	Postsecondary education, Saint-Petersburg state sea technical university, Ph.D. (economics)	First deputy to the General Director of the joint-stock company for economics and finances	Since 2005	OJSC “TATINCOM – T” - member of the Board of directors, CJSC «PTKOM» - member of the Board of directors, CJSC “NCC” - member of the Board of directors	Does not possess the Company’s shares
9.	Popkov Nikolai Ivanovich	1973	Postsecondary education, Nizhny Novgorod state university after N.I. Lobachevsky.	OJSC “VolgaTelecom” chief accountant	Since 2002	None	Does not possess the Company’s shares

The procedure of convocation and holding of sessions of the Management board, and also the procedure of taking the decisions of the Management board, the size and the procedure of remuneration payment to the members of the Management board are defined by the Provision on the Company's Management board approved by general meeting of the Company's stockholders.

The members of the Company's Management board during the term of their duties performance are paid remuneration and compensations for the expenses related to their performance of functions of the Management board members. The size and the procedure of remuneration payment and also remuneration distribution among the Management board members are defined by the resolution of the Company's Board of directors according to the Provision on remuneration of OJSC "VolgaTelecom" Management board members, the specified Provision being approved on March 29, 2005. The Management board members are entitled to participate in option programs carried out by the Company.

The remuneration paid to the Company's Management board members for 2005 amounts to 5 807 637 rubles.

2. Data on transactions on acquisition or carve-out of the Company's shares during the reporting year by the members of the Company's Management Board (in accordance with the order of FSFM of March 16, 2005 № 05-5/пз-н).

The members of Company's Management board (of the structure as of 31.12.2005) did not make transactions of acquisition or carve-out of OJSC "VolgaTelecom" shares during the reporting year (in accordance with the order of FSFM of March 16, 2005 № 05-5/пз-н).

13.4. Auditing committee.

1. Quantitative and individual structure of current Auditing committee.

Auditing committee is the Company's independent body of control elected at the annual general meeting of shareholders for the period till the next annual general meeting of shareholders, and consisting of 5 persons.

The control over OJSC "VolgaTelecom" financial-economic activity is performed by the Auditing committee elected at the annual general meeting of shareholders on June 28, 2005 in the following structure:

Table 33

№	Surname, name and patronymic name	Place of employment and work status
1.	Koroleva Olga Grigorievna	Chairman of the Company's Auditing committee, chief accountant of OJSC "Svyazinvest"
2.	Golubitskiy Bogdan Ivanovich	Chief expert of Department of economic planning and budgeting of OJSC "Svyazinvest"
3.	Zubova Tatiana Yurievna	Deputy to the head of the section of the Department of accounting of OJSC "Svyazinvest"
4.	Kachurin Alexander Vladimirovich	Head of the section of the Department of finances of OJSC "Svyazinvest"
5.	Feoktistova Natalia Vadimovna	Head of the section of the Department for legal supporting of OJSC "Svyazinvest"

2. Information about the Company's Auditing committee activity.

The activity of the Auditing committee was conducted in the following areas:

- The check of the Company's financial and economic documentation, including, if necessary, of data of primary accounting;
- The check of legality of resolutions and actions of the Company's executive bodies,

including of concluded contracts and transactions made;

- The check of compliance of conditions of transactions made by the Company with the conditions of transactions, made in comparable circumstances;
- The analysis of compliance of bookkeeping and accounting statement with current regulatory documents;
- The analysis of the Company's financial position, detection of reserves for improvement of the Company's economic status;
- The analysis of timeliness and accuracy of settlements with contractors, budgets of various levels, shareholders and other creditors of the Company;
- The analysis of settlements with the Company's debtors, including as related to the timeliness and completeness of measures taken by the executive bodies;
- In other areas of the Company's activity within the framework of the Auditing committee competence.

The Auditing committee held five sessions. The check of financial and economic activity of General directorate and Nizhny Novgorod branch of the Company for 2005 was carried out.

By the results of work OJSC "VolgaTelecom" Auditing committee report for 2005 was made. The infringements detected by the Auditing committee are not essential and may not affect the reliability of OJSC "VolgaTelecom" accounting statement for 2005.

XIV. INFORMATION ABOUT THE COMPANY'S COMPLIANCE WITH CORPORATE GOVERNANCE CODE

14.1. Information about the Company's corporate governance Code:

Introduction of corporate governance principles and rules into day-to-day activity contributes to the Company's successful development, expressed in the first instance in long-term perspectives of the Company's development, increase in its investment attractiveness. Steadfast compliance with the Code is aimed at creation and maintaining reliable partnership relations with shareholders, employees, clients and other interested persons of the Company and at formation of the Company's positive image upon the whole.

OJSC "VolgaTelecom" corporate governance Code was approved by the Company's Board of directors on March 11, 2004, the changes were introduced on September 24, 2004 and May 20, 2005.

By declaring its intention to comply with the provisions of corporate governance Code, the Company assumed the liability to improve the Company's corporate governance in accordance with the principles ensuring:

- Actual opportunity for the stockholders to exercise their rights related to participation in the Company;
- Equal treatment of stockholders possessing the shares of the same type (category), including minority and foreign stockholders;
- Exercising by the Board of directors of strategic management of the Company's activity and efficient control by the Board of directors over the activity of the Company's executive bodies, and also the accountability of the members of the Board of directors to the Company's stockholders;
- Reasonable and bona fide exercising by the Company's executive bodies of efficient management of the Company's current activity in the interests of ensuring its long-term, stable development and obtaining profit by the stockholders from this activity; the accountability of executive bodies to the Company's Board of directors and its stockholders;
- Timely disclosure of exact and true information about the Company, including about its financial status, economic indicators, the structure of property and management, essential corporate actions in order to ensure the opportunity to take informed decisions by the Company's stockholders and investors;

- Efficient control over the Company's financial-economic activity in order to protect the rights and legitimate interests of the stockholders;
- Observance of legitimate rights of the Company's employees, development of partnership relations between the Company and the employees in solution of social issues and regulation of labor conditions;
- Active cooperation of the Company with investors, creditors and other interested parties in order to increase the Company's value, including the growth of its assets, the price of shares and other securities, raising its reputation.

The principles and the rules of OJSC "VolgaTelecom" Code of corporate governance meet international standards of corporate governance practice and contain requirements to the functioning of the Company's bodies of management and control and to observance of high ethic norms and business communication culture by all persons of the Company.

In accordance with FCSM recommendations, the rules of the corporate governance Code effective in OJSC "VolgaTelecom" are grouped by 9 basic spheres: the rights of the Company's shareholders, shareholders general meeting, the Company's Board of directors, the Company's executive bodies, disclosure of information about the Company, control over financial and economic activity of the Company, dividends, settlement of corporate conflicts.

On June 28, 2005 the annual general meeting of shareholders elected the Company's Board of directors by cumulative voting to the number of 11 persons, there are three independent directors meeting the requirements of OJSC "VolgaTelecom" corporate governance Code in its structure.

For the purpose of efficient performance of the Board of directors' functions in the light of requirements of OJSC "VolgaTelecom" corporate governance Code, the Board of directors' Committees were established. The Committees are designed for preliminary consideration of issues referred to the competence of the Board of directors, and for the preparation of recommendations on them for the Board of directors.

The Board of directors elected at annual shareholders general meeting on July 29, 2005 reestablished the Committees:

- Corporate governance committee,
- Strategic development committee,
- Staff and rewards committee,
- Committee for audit.

The structure of each of the Committees comprises independent directors.

The activity of the Board of directors' Committees is regulated by the appropriate provisions.

The post of the Company's Corporate secretary is introduced and is functioning in the Company. The functions of the Corporate secretary include ensuring interaction with executive bodies and the Board of directors, provision of the Board of directors' activity; the Provision on the Corporate secretary and the back office of the Company's Corporate secretary has been approved. Pokrovskaya Natalia Ivanovna was appointed the Company's corporate secretary.

According to the requirements of the corporate governance Code, there is the service of internal control over the Company's financial and economic activity in the Company, and the service does not depend on the Company's executive bodies.

14.2. Report on corporate governance Code compliance with FCSM recommendations.

Table 34

N	Provision of corporate governance Code	Observed or not observed	Comment
General meeting of stockholders			
1.	Notification of stockholders on holding of general meeting of stockholders at least 30 days prior to the date of its holding irrespective of the issues included into the agenda, if legislation does not stipulate longer period.	Observed	The date of notification dispatch is approved by the Company's Board of directors. Item 12.12 of the Company's Charter Item 10 of Annex 1 to the Provision approved by RF FSFM order of 15.12.2004 №1245/ПЗ-Н.
2.	Availability with the stockholders of the capability to get familiarized with the list of persons having the right to participate in general meeting of stockholders starting from the date of announcing the holding of general meeting of stockholders and to the closing of formal general meeting of stockholders, and in case of absentee general meeting of stockholders – to the date of the end of acceptance of the voting ballots.	Observed	Item 7.5. of the Company's Charter.
3.	Availability with the stockholders of capability to get familiarized with the information (materials) subject to provision during the preparation to holding general meeting of stockholders by means of electronic facilities, the Internet including.	Observed	The Company has the web-site in the Internet: www.vt.ru, where the information provided to shareholders at the preparation for the meeting is posted.
4.	Availability with the stockholders the capability to bring forward the motions into the agenda of the general meeting of stockholders or to demand the convocation of general meeting of stockholders without providing an extract from the stockholders' register, if his/her rights for the shares are accounted in the system of stockholders' register keeping, and in case if his/her rights for shares are accounted at custody account, - it is sufficient to provide an extract from the custody account to exercise the above rights.	Observed	Item 12.6. of the Company's Charter, item 2.6. of the Provision on the procedure of holding general meeting of the Company's stockholders.
5.	Availability in the Company's Charter or in internal documents of the requirement of obligatory presence of the General Director, members of the Management board, members of the Board of directors, members of the Auditing committee and the Company's auditor at the general meeting of stockholders.	Observed in practice	The Company tends to ensure the presence of the members of management and control bodies of the Company as well as the Company's auditor at the general meeting of shareholders.
6.	Obligatory presence of nominees at general meeting of stockholders during consideration of issues of electing the members of the Board of directors, the General Director, members of the Management board, members of the Auditing committee, and also of the issue of the approval of the joint-stock company's auditor.	Observed	The Company ensures the presence of nominees to the Company's bodies of management and control at general meeting of stockholders.
7.	Availability in the Company's internal documents of the procedure of registration of the participants of general meeting of stockholders.	Observed	Items 3.4. and 8.1. of the Provision on the procedure of holding general meeting of stockholders of the Company.
The Board of directors			
8.	Availability in the joint-stock company's Charter of the authority of the Board of directors to approve annual financial-economic plan of the joint-stock	Observed	Sub-item 1 of item 13.4 of the Company's Charter.

N	Provision of corporate governance Code	Observed or not observed	Comment
	company.		
9.	Availability of the procedure approved by the Board of directors, of risk management in the joint-stock company.	Observed	Stipulated by the Company's marketing strategy for 2004-2006 approved by the Company's Board of directors.
10.	Availability in the joint-stock company's Charter of the right of the Board of directors to take a decision to suspend the powers of the General Director being appointed by the stockholders' general meeting.	Not applicable	Sub-item 26 of item 13.4, item 15.5 of the Company's Charter.
11.	Availability in the joint-stock company's Charter of the right of the Board of directors to establish the requirements to the qualification and to the size of remuneration of the General Director, members of the Management board, heads of the basic structural divisions of the joint-stock company.	Observed	Sub-item 33 of item 13.4; item 14.7; item 15.4. of the Company's Charter.
12.	Availability in the joint-stock company's Charter of the right of the Board of directors to approve the terms and conditions of contracts with the General Director and the members of the Management board.	Observed	Sub-item 33 of item 13.4 of the Company's Charter.
13.	Availability in the joint-stock company's Charter or in the internal documents of the requirement that when approving the terms and conditions of contracts with the General Director (managing organization, manager) and with the members of the Management board, the votes of the members of the Board of directors who are being the General Director and the members of the Management board are not taken into account during the vote tabulation.	Was observed in practice	As of the reporting year end the General Director and the members of the Company's Management board were not the members of the Board of directors.
14.	Availability in the structure of the joint-stock company's Board of directors of at least 3 independent directors meeting the requirements of the corporate governance Code.	Observed	Bobin M.V., Kulikov D.V., Fedorov O.R.
15.	The absence in the structure of the joint-stock company's Board of directors of the persons who were found guilty of committing offences in the area of economic activity or offences against state authority, interests of state service and local authority service, or to whom administrative punishment was administered for violation of law in the area of entrepreneurial activity or in the area of finances, taxes and dues, securities market.	Observed	
16.	The absence in the structure of the joint-stock company's Board of directors of the persons who are participants, general director (manager), members of the management body or an employee of a legal entity competing with the joint-stock company.	Observed	
17.	Availability in the joint-stock company's Charter of the requirement of electing the structure of the Board of directors by cumulative voting.	Observed	Item 13.2 of the Company's Charter.
18.	Availability in the joint-stock company's internal documents of the duty of the members of the Board of directors to abstain from actions that will result in or potentially may result in the occurrence of conflict between their interests and the joint-stock company's interests, and in case of occurrence of such a conflict – of the duty to disclose the information about this conflict to the Board of directors.	Observed	Item 4.20 of corporate governance Code; item 3.2 of the Provision on the Board of directors.
19.	Availability in the joint-stock company's internal documents of the duty of the members of the Board of directors to notify in writing the Board of direc-	Observed	Item 3.3 of the Provision on the Procedure of using the information on OJSC "VolgaTelecom" activity, on its

N	Provision of corporate governance Code	Observed or not observed	Comment
	tors on the intent to make transaction with the securities of the joint-stock company where they are the members of the Board of directors, or with the securities of associated (affiliated) companies, and also to disclose the information on transactions with such securities made by them.		securities and transactions with them, the specified information not being accessible to the public, and its misuse or disclosure is capable to affect materially the market value of OJSC "VolgaTelecom" securities. Item 6 of Annex 1 to the Provision approved by RF FSFM order of 15.12.2004 №1245/ПЗ-Н.
20.	Availability in the joint-stock company's internal documents of the requirement that the sessions of the Board of directors should be held at least once in six weeks.	Observed	Item 6.2. of the Provision on the Company's Board of directors, Item 4.8. of the Company's corporate governance Code.
21.	Holding of sessions of the joint-stock company's Board of directors during the year for which the Company's annual report is drawn up with periodicity of at least one time in six weeks.	Observed	
22.	Availability in the joint-stock company's internal documents of the procedure of holding the sessions of the Board of directors.	Observed	Chapter 6 of the Provision on the Company's Board of directors.
23.	Availability in the joint-stock company's internal documents of the provision that it is necessary for the Board of directors to approve the Company's transactions for the amount of 10 and more per cent of the joint-stock company's asset value, excluding the transactions made in the course of ordinary economic activity.	Observed	Sub-item 19 and 20 of item 13.4. of the Company's Charter.
24.	Availability in the joint-stock company's internal documents of the right of the members of the Board of directors to receive the information required for the performance of their duties from executive bodies and heads of basic divisions of the joint-stock company, and also of the responsibility for non-providing such information.	Observed	Item 3.4. of the Provision on the Company's Board of directors.
25.	Availability of the committee of the Board of directors for strategic planning or assignment of functions of the said committee to other committee (except for the committee for audit and for the staff and rewards committee).	Observed	Item 4.24. of the Company's corporate governance Code. There is the strategic development committee with the Board of directors.
26.	Availability of the committee of the Board of directors (committee for audit) that recommends the joint-stock company's auditor to the Board of directors and interacts with the auditor and the joint-stock company's auditing committee.	Observed	Item 4.24. of the Company's corporate governance Code, Item 3 of Annex 1 to the Provision approved by RF FSFM order of 15.12.2004 №1245/ПЗ-Н
27.	Availability in the structure of the committee for audit of only independent and non-executive directors.	Observed	Item 3 of Annex 1 to the Provision approved by RF FSFM order of 15.12.2004 №1245/ПЗ-Н Degtyarev V.V., Kulikov D.V., Chernogorodskiy S.V.
28.	Performance of management of the committee for audit by an independent director.	Observed	Item 3 of Annex 1 to the Provision approved by RF FSFM order of 15.12.2004 №1245/ПЗ-Н is observed, The Committee's chairman is Degtyarev V.V.
29.	Availability in the joint-stock company's internal documents of the right for access of all members of the committee for audit to any documents and information of the joint-stock company provided they do not disclose confidential information.	Observed	Item 4.22. of the Company's corporate governance Code

N	Provision of corporate governance Code	Observed or not observed	Comment
30.	Establishment of the committee of the Board of directors (staff and rewards committee), its function being definition of criteria of selecting the candidates to the members of the Board of directors and formulation of the joint-stock company's policy in remuneration area.	Observed	Item 4.24. of the Company's corporate governance Code, Item 4 of Annex 1 to the Provision approved by RF FSFM order of 15.12.2004 №1245/ПЗ-Н Staff and rewards committee was established in the Company.
31.	Performance of management of the staff and rewards committee by an independent director.	Observed	Item 4 of Annex 1 to the Provision approved by RF FSFM order of 15.12.2004 №1245/ПЗ-Н, the Committee's chairman is Bobin M.V.
32.	The absence of the joint-stock company's office holders in the structure of the staff and rewards committee.	Observed	Item 4 of Annex 1 to the Provision approved by RF FSFM order of 15.12.2004 №1245/ПЗ-Н. Bobin M.V., Grigorieva A.B., Kulikov D.V., Chernogorodskiy S.V.
33.	Establishment of the risk committee of the Board of directors or assignment of functions of the said committee to other committee (except for the committee for audit and the staff and rewards committee).	Observed partially	The committee for audit.
34.	Establishment of the corporate conflict settlement committee of the Board of directors or assignment of functions of the said committee to other committee (except for the committee for audit and the staff and rewards committee).	Observed	Corporate governance committee.
35.	The absence of the joint-stock company's office holders in the structure of the corporate conflict settlement committee.	Observed partially	According to item 5.7. of the Provision on the Corporate governance committee, the committee's members - Company's officials do not have the right to vote on the issue of resolving corporate conflicts. Grigorieva A.B., Bobin M.V., Omelchenko S.V., Evdokimov A.V., Fedorov O.R.
36.	Performance of management of the corporate conflict settlement committee by an independent director.	Observed partially	The committee is headed by a non-executive director.
37.	Availability of the joint-stock company's internal documents, stipulating the procedure of formation and operation of the committees of the Board of directors, the documents being approved by the Board of directors.	Observed	The Provisions on the committees of Company's Board of directors.
38.	Availability in the joint-stock company's Charter of the procedure of defining the quorum of the Board of directors allowing for ensuring obligatory participation of independent directors in the sessions of the Board of directors.	Not observed	Items 13.6; 13.7; 13.10; 13.12; 13.13 of the Company's Charter.
Executive bodies			
39.	Availability of collegial executive body (the Management board) of the joint-stock company.	Observed	Item 14 of the Company's Charter, Item 5 of Annex 1 to the Provision approved by RF FSFM order of 15.12.2004 №1245/ПЗ-Н.
40.	Availability in the joint-stock company's Charter or in the internal documents of the provision on the necessity of the Management board's approval of real estate transactions, of the joint-stock company's obtaining the credits, if the specified transactions are not related to material transactions and their making is not related to the joint-stock	Observed	Sub-item 5 of item 14.4. Sub-item 2 of item 13.4. of the Company's Charter.

N	Provision of corporate governance Code	Observed or not observed	Comment
	pany's ordinary economic activity.		
41.	Availability in the joint-stock company's internal documents of reconciliation procedure of operations falling outside the scope of the joint-stock company's financial-economic plan.	Observed	Sub-item 2 of item 13.4. of the Company's Charter.
42.	The absence in the structure of the Company's executive bodies of the persons who are a participant, general director (manager), a member of the management body or an employee of a legal entity competing with the joint-stock company.	Observed	
43.	The absence in the structure of the joint-stock company's executive bodies of the persons who were found guilty of committing offences in the area of economic activity or offences against state authority, interests of state service and local authority service, or to whom administrative punishment was administered for violation of law in the area of entrepreneurial activity or in the area of finances, taxes and dues, securities market. If the functions of a single executive body are carried out by a managing organization or by a manager – compliance of general director and members of management board of managing organization or a manager with the requirements made to the General Director and members of the Management board of the joint-stock company.	Observed	
44.	Availability in the joint-stock company's Charter or in the internal documents of prohibition to a managing organization (a manager) to carry out similar functions in a competing company, and also to be in any property relations with the joint-stock company apart from rendering the services of a managing organization (a manager).	The control pattern is not applicable.	
45.	Availability in the joint-stock company's internal documents of the duty of executive bodies to abstain from actions that will result in or potentially may result in the occurrence of conflict between their interests and the joint-stock company's interests, and in case of such conflict occurrence – the duty to inform the Board of directors about it.	Observed	Article 10 of the Company's corporate governance Code.
46.	Availability in the joint-stock company's Charter or in the internal documents of the criteria of selection of a managing organization (a manager).	The control pattern is not applicable.	
47.	Provision by the joint-stock company's executive bodies of monthly reports on their work to the Board of directors.	Observed	At each session of the Board of directors the executive bodies provide the information about their work.
48.	Incorporation of responsibility for the breach of provisions about using confidential and insider information in the contracts concluded by the joint-stock company with the General Director (a managing organization, a manager) and the members of the Management board.	Observed	Item 3.1.10 of the labor contract with the General Director, and also the Provision on the protection of the Company's confidential information.
The Company's secretary			
49.	Availability in the joint-stock company of a special office holder (the Company's secretary), whose task is to ensure the compliance of the joint-stock company's bodies and office holders with the procedural requirements guaranteeing realization of rights and legitimate interests of the Company's stockholders.	Observed	

N	Provision of corporate governance Code	Observed or not observed	Comment
50.	Availability in the joint-stock company's Charter or in the internal documents of the procedure of appointment (election) of the Company's secretary and the functions of the Company's secretary.	Observed	Article 16 of the Company's Charter.
51.	Availability in the joint-stock company's Charter of the requirements to the candidacy of the Company's secretary.	Observed	Item 2.4. of the Provision on the Corporate secretary and the back office of the Corporate secretary.
Essential corporate actions			
52.	Availability in the joint-stock company's Charter or in the internal documents of the requirement on the approval of a material transaction prior to its making.	Observed	Sub-item 17 of item 12.2; sub-items 19, 20 of item 13.4 of the Company's Charter.
53.	Obligatory involvement of independent appraiser for the assessment of market value of property being the subject of a material transaction.	Observed	
54.	Availability in the joint-stock company's Charter of the prohibition for taking any actions during the acquisition of large blocks of shares of the joint-stock company (takeover); the actions being meant for the protection of interests of executive bodies (members of these bodies) and the members of the joint-stock company's Board of directors, and also aggravating the situation of the stockholders as compared with the existing one (in particular, the prohibition for the Board of directors to make the decision on the issue of additional shares, on the issue of securities convertible into shares, or securities granting the right of acquisition of the Company's shares, even if the right for taking such a decision is granted to it by the Charter, before the end of the assumed period of shares acquisition).	Not observed	The availability of direct prohibition for rights violation is needless, as the absence in the Charter of provisions on the possibility of actions aimed at protection of interests of executive bodies (members of these bodies), members of the Board of directors and others shows the impossibility of taking such actions.
55.	Availability in the joint-stock company's Charter of the requirement of obligatory involvement of an independent appraiser for the assessment of current market value of shares and potential changes of their market value as a result of takeover.	Not observed	The Company when carrying out takeover transaction will obligatory involve an independent appraiser for the assessment of current market value of shares and potential changes of their market value as a result of takeover.
56.	The lack in the joint-stock company's Charter of the exemption of the acquirer from the obligation to offer the stockholders to sell the Company's ordinary shares belonging to them (issuing securities convertible into ordinary shares) during the takeover.	Observed	Item 11 of Annex 1 to the Provision approved by RF FSFM order of 15.12.2004 №1245/ПЗ-Н.
57.	Availability in the joint-stock company's Charter or in the internal documents of the requirement of obligatory involvement of an independent appraiser for determination of the ratio of shares conversion during reorganization.	Not observed	The Company, when affiliating communication operators of the Volga region in 2002, obligatory involved an independent appraiser for determination of the ratio of shares conversion during reorganization.
Information disclosure			
58.	Availability of the internal document approved by the Board of directors defining the rules and approaches of the joint-stock company to the information disclosure (Provision on information policy).	Observed	Provision on information policy is approved by the Board of directors on June 27, 2005 Item 7 of Annex 1 to the Provision approved by the order of RF FSFM of 15.12.2004 №1245/ПЗ-Н.
59.	Availability in the joint-stock company's internal documents of the requirement of disclosing the information on the purposes of shares placement, on	Observed	Provision on information policy.

N	Provision of corporate governance Code	Observed or not observed	Comment
	the persons who are going to acquire the shares being placed, including a large block of shares, and also on the fact if top office holders of the joint-stock company are going to participate in the acquisition of the Company's shares being placed.		
60.	Availability in the joint-stock company's internal documents of the list of information, documents and materials that should be provided to the stockholders for the solution of issues of the stockholders' general meeting.	Observed	Item 12.13 of the Company's Charter; Article 3 of Provision on information policy of OJSC "VolgaTelecom".
61.	Availability with the joint-stock company of the web-site in the Internet and regular disclosure of information about the joint-stock company at this web-site.	Observed	The Company has the web-site in the Internet: www.vt.ru, where the information about the Company is regularly disclosed.
62.	Availability in the joint-stock company's internal documents the requirement of disclosing information on the joint-stock company's transactions with persons who as per the Charter are top office holders of the joint-stock company, and also on the joint-stock company's transactions with organizations where the joint-stock company's top office holders directly or indirectly own 20 and more per cent of the joint-stock company's charter capital or which may be materially affected by such office holders.	Observed	Article 5 of Provision on information policy of OJSC "VolgaTelecom".
63.	Availability in the joint-stock company's internal documents of the requirement of disclosing information on all transactions that may affect the market cost of the joint-stock company's shares.	Observed partially	The Company's Board of directors makes decisions on the transactions that may affect the market cost of the Company's shares; the information about these decisions is disclosed in the form of published press-releases. In accordance with current Russian legislation the Company discloses the information as regards the transactions that may affect the market cost of the Company's shares in the form of communication about material fact and communication on the data which may materially affect the cost of the Company's securities.
64.	Availability of the internal document, approved by the Board of directors, for using essential information about the joint-stock company's activity, shares and other securities of the Company and transactions with them; this information is not publicly accessible and its disclosure may materially affect the market cost of shares and other securities of the joint-stock company.	Observed	The Provision on the procedure of using the information on OJSC "VolgaTelecom" activity, on its securities and transactions with them, the information not being publicly accessible and its misuse or disclosure is capable to affect materially the market value of OJSC "VolgaTelecom" securities was approved by the Board of directors on June 27, 2005; Item 8 of Annex 1 to the Provision approved by the order of RF FSFM of 15.12.2004 №1245/ПЗ-Н.
Control over financial and economic activity			
65.	Availability of procedures of internal control over the joint-stock company's financial-economic activity, these procedures being approved by the Board of directors.	Observed	The Company's Board of directors approved: the rules of organizing and carrying out of integrated checks of financial-economic activity of the branches and their structural subdivisions; the plan of checks by OJSC

N	Provision of corporate governance Code	Observed or not observed	Comment
			<p>“VolgaTelecom” internal audit department of financial-economic activity of the branches and their structural sub-divisions for 2005.</p> <p>Item 9 of Annex 1 to the Provision approved by the order of RF FSFM of 15.12.2004 №1245/ПЗ-Н.</p>
66.	Availability of the joint-stock company’s special sub-division ensuring the compliance with the procedures of internal control (auditing service).	Observed	The functions of the sub-division ensuring the compliance with the procedures of internal control are carried out by the Department of internal audit.
67.	Availability in the joint-stock company’s internal documents of the requirement that the structure and the membership of auditing service of the joint-stock company is to be defined by the Board of directors.	Observed	Sub-item 18 of item 13.4 of the Company’s Charter.
68.	The absence in the structure of the audit service of the persons who were found guilty of committing offences in the area of economic activity or offences against state authority, interests of state service and local authority service, or to whom administrative punishment was administered for violation of law in the area of entrepreneurial activity or in the area of finances, taxes and dues, securities market.	Observed	
69.	The absence in the structure of the audit service of the persons who are members of the joint-stock company’s executive bodies, and also of persons who are a participant, general director (manager), a member of the management body or an employee of a legal entity competing with the joint-stock company.	Observed	
70.	Availability in the joint-stock company’s internal documents of the time for submission of documents and materials for appreciation of carried out financial-economic operation to the audit service, and also the responsibility of the joint-stock company’s office-holders and employees for their non-submission at date designated.	Observed	The time for submission of documents and materials for appreciation of carried out financial-economic operation to the audit service is stipulated by the order of the General Director when instituting this check.
71.	Availability in the joint-stock company’s internal documents of the duty of the audit service to inform the committee for audit, and in case of its non-availability, the joint-stock company’s Board of directors about identified violations.	Observed in practice	The Department of the internal audit informs the joint-stock company’s Board of directors about identified violations after demand.
72.	Availability in the joint-stock company’s Charter of the requirement of preliminary appreciation by the audit service of the expediency of making operations not envisaged by the joint-stock company’s financial-economic plan (non-standard operations).	Observed	When the Company’s Board of directors and the Management board approach the Company’s auditing committee and the Department of internal audit, the latter may preliminary appreciate the operations not envisaged by the joint-stock company’s financial-economic plan (non-standard operations).
73.	Availability in the joint-stock company’s internal documents of the procedure of coordination of a non-standard operation with the Board of directors.	Observed	Sub-item 2 of item 13.4. of the Company’s Charter, Labor contract with the Company’s General Director.
74.	Availability of the internal document, approved by the Board of directors, defining the procedure of carrying out the checks of the joint-stock com-	Observed	Provision on the Company’s Auditing Committee, approved on March 26, 2003 by joint (extraordinary) general

N	Provision of corporate governance Code	Observed or not observed	Comment
	pany's financial-economic activity by the Auditing committee.		meeting of shareholders.
75.	Appreciation of the auditor's report by the Committee for audit before its presentation to stockholders at general meeting of stockholders.	Observed	Item 2.2.1 of the Provision of the Committee for audit.
Dividends			
76.	Availability of the internal document, approved by the Board of directors, which serves as a guide for the Board of directors when adopting the recommendations about the size of dividends (Provision on dividend policy).	Observed	Provision on the Company's dividend policy was approved by the Board of directors on March 30, 2005.
77.	Availability in the Provision on dividend policy of the procedure of defining the minimum share of the joint-stock company's net profit allocated for dividends payment, and of the terms and conditions under which the dividends on preferred shares, the size of dividends on them being defined in the joint-stock company's Charter, are not paid or are paid not in full.	Observed	Articles 3, 8 of the Provision on the Company's dividend policy.
78.	Publication of data on the joint-stock company's dividend policy and amendments introduced into it in the periodical stipulated by the joint-stock company's Charter for publication of communications about holding of general meetings of stockholders, and also posting of these data at the joint-stock company's web-site in the Internet.	Observed	The resolution of general meeting of stockholders on the payment of the Company's dividends is published in the periodical stipulated by the Company's Charter, and also the posting of the specified data at the joint-stock company's web-site in the Internet.

The information is presented in accordance with "Recommended practice on the structure and the form of presentation of information on compliance with the Code of corporate governance in annual reports of joint-stock companies" approved by FCSM order № 03-849/p of 30.04.2003.

As OJSC "VolgaTelecom" securities are included in quotation lists "A" of stock exchange and are put out to tender, the compliance with the requirements of the Provision on activity of trade organizing at the securities market, approved by RF FSFM order of 15.12.2004 №1245/ПЗ-Н, is obligatory for the Company.

XV. INFORMATION FOR SHAREHOLDERS

15.1. The Company's Charter capital and Securities.

As of January 1, 2006 OJSC "VolgaTelecom" charter capital amounts to 1 639 764 970 rubles and consists of 245 969 590 ordinary registered paperless shares and 81 983 404 preferred registered paperless type A shares. The face value of shares is 5,00 rubles.

The Company's placed and declared shares as of January 1, 2006.

Table 35

Shares categories (types)	Quantity (pieces)	Face value (rubles)
Placed shares:	327 952 994	5
• ordinary shares – total	245 969 590	5
• preferred type A shares – total	81 983 404	5
Declared shares:	1 830 589	5
• ordinary shares	1 299 093	5

• preferred type A shares	531 496	5
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15.2. The structure of joint-stock capital

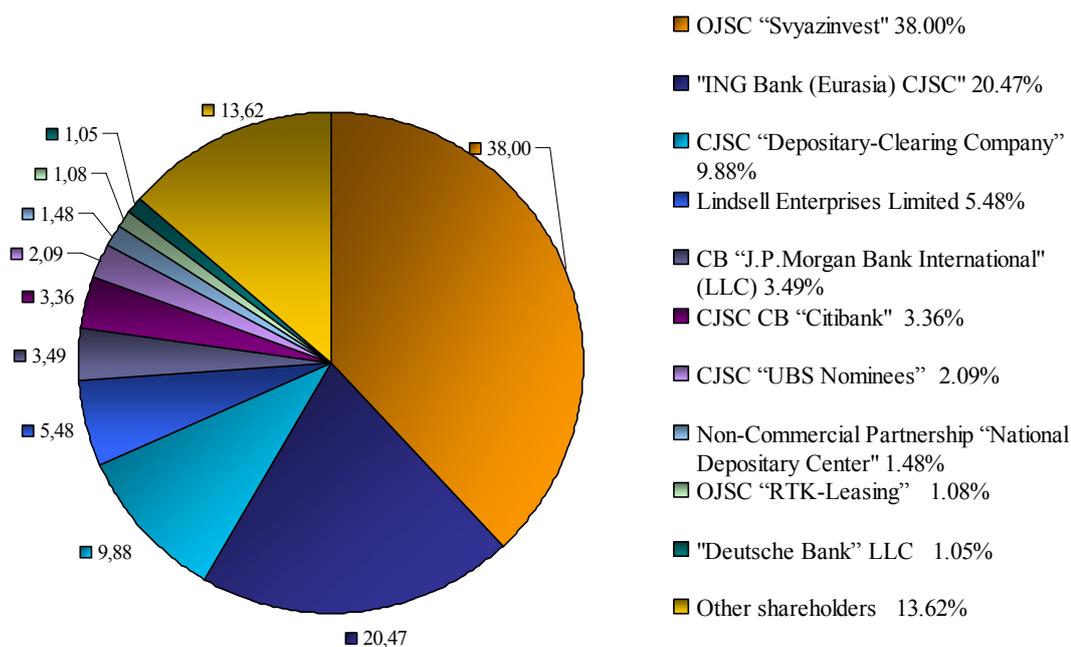
Distribution of OJSC “VolgaTelecom” shares among shareholders as of January 1, 2006.

Table 36

Shareholders	Number of shareholders	Ordinary registered shares, % in Charter capital	Preferred registered shares, % in Charter capital	Stake in Charter capital, %
Legal entities, including	203	71,41	18,55	89,95
Owners, including	179	40,38	7,07	47,44
<i>OJSC “Svyazinvest”</i>	1	38,00	-	38,00
Nominee holders	24	31,03	11,48	42,51
Natural persons	28 443	3,60	6,45	10,05

The structure of joint-stock capital as of January 1, 2006.

Chart 14



15.3. Information about the owners of the largest blocks of shares (equity stake in the Company’s Charter capital is more than 1%).

Table 37

№	Name	Account category	Ordinary shares, % of Charter capital	Preferred shares, % of Charter capital	Share in Charter capital (%)
1	Open Joint Stock Company “Investment communication company”	Owner	38,00	0,00	38,00

2	“ING Bank (Eurasia) CJSC” (Closed Joint Stock Company)	Nominee holder	17,56	2,91	20,47
3	Closed Joint Stock Company “Depository-Clearing Company”	Nominee holder	4,74	5,15	9,88
4	Lindsell Enterprises Limited	Owner	0,00	5,48	5,48
5	Commercial bank “JPMorgan Bank International” (Limited Liability Company)	Nominee holder	2,57	0,92	3,49
6	Closed Joint Stock Company Commercial Bank “Citibank”	Nominee holder	2,67	0,69	3,36
7	Closed Joint Stock Company “UBS Nominees”	Nominee holder	1,34	0,75	2,09
8	Non-Commercial Partnership “National Depository Center”	Nominee holder	0,78	0,70	1,48
9	Open Joint Stock Company “RTK-Leasing”	Owner	1,08	0,00	1,08
10	“Deutsche Bank” Limited Liability Company	Nominee holder	1,05	0,00	1,05
11	Other shareholders		30,21	83,40	13,62

15.4. Information about trading sites (stock exchanges) where the Company’s shares and ADRs are quoted.

At present OJSC “VolgaTelecom” shares are circulating at three trading sites of Russian securities market:

Table 38

		Ticker	Quotation list	Trading volume in money terms for 2005
NCP RTS	Ordinary shares	NNSI	A2	35 739 145 USD
	Preferred shares	NNSIP	A2	8 747 263 USD
OJSC “RTS”	Ordinary shares	NNSIG	A2	354 755 017 RUR
	Preferred shares	NNSIPG	A2	248 432 127 RUR
CJSC “SE MICEX”	Ordinary shares	VTEL	A2	291 733 870 RUR
	Preferred shares	VTEL	A2	153 664 981 RUR

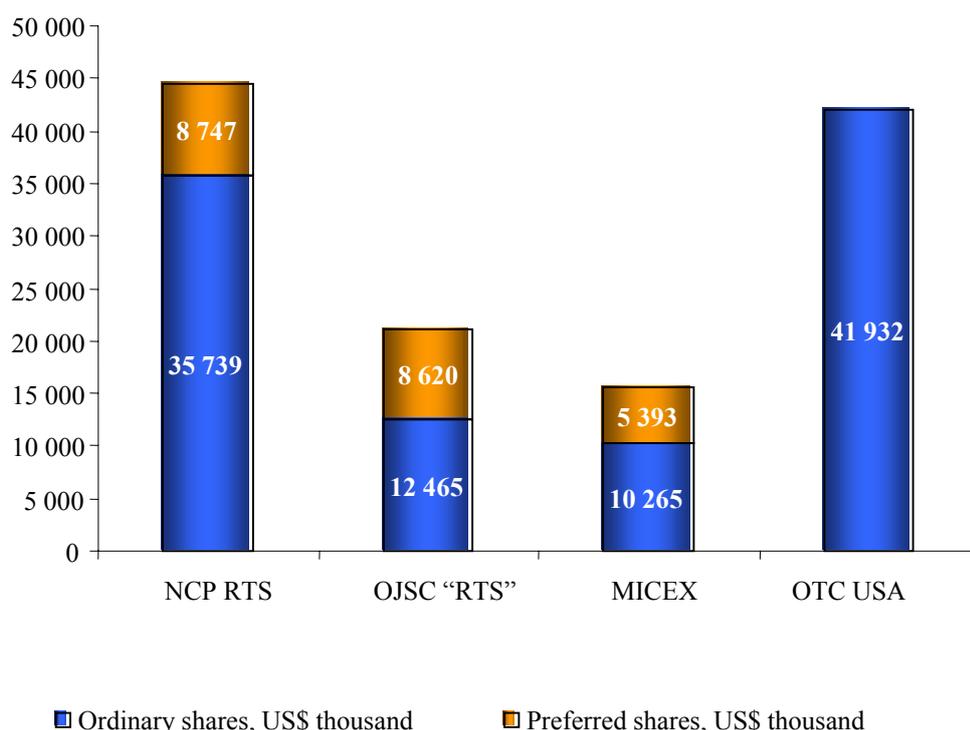
The Company’s shares are taken into account at calculation of the following stock indexes:

- RTS index.
- AK&M index (consolidated AK&M index, industry AK&M index).
- MSCI EM.

OJSC “VolgaTelecom” American Depositary Receipts are traded at the USA over-the-counter market (OTC USA) (ADR ticker – VLGAY) and in Europe at Frankfurt (FSE) (ADR ticker - NZH), Berlin (BerSE) (ADR ticker – NZH) and Stuttgart stock exchanges (SSE) (ADR ticker – NZH).

**Trading volume of the Company's shares at different trading sites
in 2005 (US\$ thousand)**

Chart 15



15.5. Information on the issue (support) and advance of ADR Program.

The Company's level-I ADR program was registered in October 1997.

In 1997 the bank of New York was selected as the Depository Bank of level-I ADR program, and in 2002 the Program was transferred to JPMorgan Chase Bank.

CJSC "ING Bank (Eurasia)" is custodian bank.

"Clifford Chance Punder" company is the legal adviser on the specified program.

One American Depositary Receipt corresponds to 2 registered paperless ordinary shares of the Company.

As of 2005 end the number of ADR was 22 194 858 pieces, which is 18,05 % of voting shares and 13,54 % of the Charter capital of the Company.

Additional information on the Company's ADR Program is available in the Internet at: <http://www.vt.ru/?id=551>, <http://www.adr.com>.

15.6. Information about the Company's credit rating and corporate governance rating.

On January 31, 2005 rating agency “Expert RA” in cooperation with Russian institute of directors (Consortium “RID - Expert RA”) assigned National corporate governance rating to OJSC “VolgaTelecom” at “B++” level.

On September 6, 2005 rating agency “Expert RA” confirmed National corporate governance rating of the Company at “B++” level.

On April 15, 2005 “Standard & Poor’s” raised long-term corporate credit rating of OJSC “VolgaTelecom” from “B” to “B+”. Outlook is “Stable”. Simultaneously “Standard & Poor’s” raised OJSC “VolgaTelecom” long-term rating as per Russian scale from “ruA-” to “ruA+”.

On April 15, 2005 “Standard & Poor’s” also raised long-term credit rating of the Company’s bonds issue (rubles) of the amount of 1 billion rubles with maturity term in February 2006 to “ruA+” level as per Russian scale.

On September 6, 2005 Corporate governance rating Service of “Standard & Poor’s” reduced the rating to level CGR-4+ as per international scale and CGR-4,8 as per Russian scale.

On November 8, 2005 International Rating Agency “Standard & Poor’s” published the reports on the Company’s credit rating with confirmation of international long-term credit rating at “B+” level, outlook – “Stable”.

On December 14, 2005 “Standard & Poor’s” assigned credit rating as per national scale at level “ruA” to two issues of OJSC “VolgaTelecom” priority unsecured bonds nominated in rubles of BT-2 and BT-3 series with trading volumes correspondingly 3,0 billion and 2,3 billion rubles.

The information about credit ratings and the Company’s corporate governance rating is available in the Internet at:

<http://www.vt.ru/?id=310>, <http://www.vt.ru/?id=1042>, <http://www.standardandpoors.ru>.

15.7. Information about the Company’s auditors (according to Russian and International accounting standards):

Limited Liability Company “Ernst & Young” (LLC “Ernst & Young”);

Location: 115035, Russia, Moscow, Sadovnicheskaya naberezhnaya, bld.77, str.1;

The license for audit activity, including general and bank audit, and also the audit of insurance companies, funds and exchanges, № E002138, approved by order of September 30, 2002 of the Ministry of Finance of Russian Federation, license validity term – till September 30, 2007;

LLC “Ernst & Young” provides OJSC “VolgaTelecom” with the services of audit of accounting statement made in accordance with RF legislation and of consolidated financial statement drawn up in accordance with IFRS;

Contract for audit services provision № I&C/2005-278/829 of 12.10.2005 stipulates rendering audit services of accounting statement forms and of explanatory memorandum to OJSC “VolgaTelecom” accounting statement in accordance with Russian accounting standards (RAS) for the period from January 01, 2005 to December 31, 2005, and also the audit services of OJSC “VolgaTelecom” consolidated financial statement drawn up in accordance with International Financial Reporting Standards (IFRS) as of December 31, 2005 and for 2005.

The cost of services amounts to US\$562 000.

The contract is valid till LLC “Ernst & Young” performance in full of its obligations of audit of the Company’s accounting statement and consolidated financial statement for 2005.

15.8. Information about the Company’s registry holder:

Open Joint Stock Company “Incorporated Registration Company”.

License № 10-000-1-00314 issued on 30.03.2004 by RF FCSM with no limitation of validity term.

Mail address: 107078, Moscow, Kalanchevskaya str., P.O.Box. 162

Telephone/fax: (495) 933-42-21, E-mail address:ork@ork-reestr.ru.

15.9. Information about the Company's branches.

OJSC "VolgaTelecom" consists of General directorate and 11 branches:

- *General directorate*
603000, Nizhny Novgorod city, Maxim Gorky square, Dom Svyazi
Phone/fax: +7(8312) 33-20-47/30-67-68,
E-mail: gd@vt.ru, <http://www.vt.ru>
- *Kirov branch:*
601000, Kirov city, Drelevsky str., 43/1
Phone: (8332) 62-98-31, fax: (8332) 62-12-46
E-mail: dir@kirov.vt.ru, <http://www.volgatelecom.kirov.ru>
- *Branch in the Republic of Mariy El*
424000, the Republic of Mariy El, Yoshkar-Ola town, Sovetskaya str., 138
Phone: (8362) 66-45-71, fax: (8362)63-00-99
E-mail: info@mari.vt.ru, <http://www.mari.vt.ru>
- *Branch in the Republic of Mordoviya*
430000, the Republic of Mordoviya, Saransk town, Bolshevistskaya str., 13
Phone: (8342) 32-70-04, fax: (8342) 17-60-70
E-mail: office@rm.vt.ru, <http://www.isp.moris.ru>
- *Nizhny Novgorod branch*
603000, Nizhny Novgorod city, B. Pokrovskaya str., 56
Phone: (8312) 30-55-32, fax: (8312) 30-87-53
E-mail: director@nnov.vt.ru, <http://www.nnov.vt.ru>
- *Orenburg branch*
460000, Orenburg city, Volodarsky str., 11
Phone: (3532) 77-34-10, fax: (3532) 72-01-62
E-mail: office@reg.esoo.ru, <http://www.esoo.ru>
- *Penza branch*
440606, Penza city, Kuprin str., 1/3,
Phone: (8412) 52-17-12, fax: (8412) 52-36-88
E-mail: office@penza.vt.ru, <http://www.sura.ru>
- *Samara branch*
443010, Samara city, Krasnoarmeiskaya str., 17
Phone: (846) 332-10-20, fax: (846) 264-05-10
E-mail: director@samara.vt.ru, <http://www.ssr.ru>
- *Saratov branch*
410012, Saratov city, Kiselev str., 40
Phone: (8452) 27-14-18, fax: (8452) 50-84-53
E-mail: office@saratov.vt.ru, <http://www.saratov.vt.ru>
- *Branch in the Republic of Udmurtiya*
426008, the Republic of Udmurtiya, Izhevsk city, Pushkinskaya str., 278
Phone: (3412) 22-69-91, fax: (3412) 51-01-41
E-mail: utc@utc.ru, <http://www.utc.ru>
- *Ulyanovsk branch*
432980, Ulyanovsk city, L.Tolstoy str., 60
Phone: (8422) 41-20-10, (8422) 41-24-22

E-mail: office@ul.vt.ru, <http://www.ul.vt.ru>

- *Branch in the Republic of Chuvashiya*
428000, the Republic of Chuvashiya, Cheboksary town, Lenin avenue, 2
Phone: (8352) 66-11-93, fax: (8352) 66-22-93
E-mail: director@chr.vt.ru, www.chrts.ru

The Company's contact phone: +7 (8312) 33-20-47

Fax: +7 (8312) 30-67-68

E-mail address: gd@vt.ru

Address in the Internet: <http://www.vt.ru>

**General Director of
OJSC "VolgaTelecom"**

_____ **S.V. Omelchenko**

**Chief accountant of
OJSC "VolgaTelecom"**

_____ **N.I. Popkov**

The Company's annual report was preliminary approved by OJSC "VolgaTelecom" Board of directors on May 19, 2006 (minutes № 32).