

Public Joint –Stock Company
"Southern Telecommunications Company"

Unaudited Consolidated Financial Statements

For six months ended June 30, 2005

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For six months ended June 30, 2005

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"Southern Telecommunications Company" PJSC
Unaudited consolidated balance sheet as of June 30, 2005
(in thousand rubles)

	Not es	30 June 2005	31 December 2004 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	2	33 488 388	33 553 806
Intangible assets	3	1 421 964	1 343 609
Financial investments in associates	5	515 358	526 876
Long-term financial investments	6	28 236	27 678
Long-term loans given and other assets	7	564 725	566 355
Long-term advances given		290 165	475 421
Total non-current assets		36 308 836	36 493 745
Current assets			
Inventories	8	999 798	1 035 360
Accounts receivable	9	844 741	1 053 732
Short-term financial investments	6	35 039	38 049
Other current assets	10	1 717 590	1 874 814
Cash and cash equivalents	11	215 598	463 056
Total current assets		3 812 766	4 465 012
Total assets		40 121 603	40 958 756
EQUITY AND LIABILITIES			
Preference shares	12	751 302	751 302
Ordinary shares	12	2 287 953	2 287 953
Additional capital, retained earnings and other reserves		7 156 017	7 598 256
Total shareholder's equity attributable to shareholders of the parent company		10 195 272	10 637 511
Minority interest		48 089	46 944
Total shareholder's equity		10 243 361	10 684 455
Non-current liabilities			
Long-term borrowings	13	8 301 358	11 507 661
Finance lease obligations		2 357 872	2 210 188
Pension obligations		1 105 998	1 009 000
Deferred revenue		365 107	390 916
Deferred income tax liability		500 102	587 603
Other non-current liabilities		96 773	86 212
Total non-current liabilities		12 727 211	15 791 579
Current liabilities			
Accounts payable, advances received and accrued expenses	14	2 834 306	3 731 115
Payables to Rostelecom		136 299	134 099
Taxes payable	15	477 374	584 546
Dividends payable		105 134	82 588
Short-term borrowings	13	3 717 173	3 816 150
Current portion of long-term borrowings payable within one year	13	8 858 990	5 145 301
Current portion of finance lease obligations		1 021 756	988 925
Total current liabilities		17 151 031	14 482 722
Total liabilities		29 878 242	30 274 302
Total equity and liabilities		40 121 603	40 958 756

General Director _____ G.A. Romsky Chief Accountant _____ T.V. Rusinova

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

"Southern Telecommunications Company" PJSC
Unaudited consolidated profit and loss statement
for the first six months of 2005
(in thousand rubles)

	Notes	6 months of 2005	2004 (audited)
Revenues	16	8 976 500	17 322 808
Wages, salaries, other employee benefits and payroll taxes		(2 853 306)	(6 112 621)
Depreciation and amortization		(1 398 893)	(2 699 167)
Materials, repairs and maintenance, utilities		(977 696)	(2 297 209)
Taxes other than income tax		(347 865)	(555 112)
Interconnection charges – domestic companies		(1 236 302)	(2 495 230)
Provision for impairment of receivables		(299 992)	(70 141)
Loss on disposal of property, plant and equipment		(18 536)	(42 835)
Other operating expenses		(852 866)	(1 544 181)
Total operating expenses	17	(7 985 456)	(15 816 497)
Operating profit		991 044	1 506 311
Share of result of associates		51 421	162 297
Interest expense, net	18	(1 516 431)	(2 080 944)
Bank fees		(6 413)	(12 826)
Gain (loss) from sale of investments		(3 270)	184 346
Foreign exchange gain (loss), net		20 930	(57 002)
Profit before tax		(462 719)	(297 818)
Income tax		76 721	329 594
Profit for the accounting period		(387 142)	(667 056)
Profit/(loss) attributable to shareholders of the parent company		(385 998)	(627 412)
Minority interest in subsidiaries		(1 145)	(39 644)
Profit (loss) for the reporting period		(387 142)	(667 056)

General Director _____ G.A. Romsky Chief Accountant _____ T.V. Rusinova
The accompanying notes form an integral part of these consolidated financial statements

"Southern Telecommunications Company" PJSC
Notes to unaudited consolidated financial statements
for the first six months of 2005
(in thousand rubles)

1. General information

Authorization

The unaudited Consolidated Financial Statements of "Southern Telecommunications Company" PJSC ("Company") and its subsidiaries (jointly referred to as the "Group") have been prepared for 6 months of 2005.

Principles of preparing the unaudited Consolidated Financial Statements

The interim financial statements of "Southern Telecommunications Company" PJSC for the first six months of 2005 have been prepared in accordance with International Financial Reporting Standards taking into consideration certain restrictions described in the section "Restrictions and Assumptions". The interim financial statements are presented as the accounting balance sheet, the P&L statement and notes to the financial statements. These financial statements do not contain all disclosures required by IFRS for interim reports. However, the scope of these statements is sufficient to gain a clear view of the Company's financial standing and its operating results for 6 months of 2005.

Statements for 6 months according to IFRS are presented by "Southern Telecommunications Company" PJSC for the first time; such reports have never been presented by "Southern Telecommunications Company" PJSC before. These reports are unaudited consolidated financial statements of "Southern Telecommunications Company" PJSC. No procedures of audit, review or other similar procedures will be performed in respect of these statements. At the same time, taking into account the experience of "Southern Telecommunications Company" PJSC in the field of presenting reports according to IFRS, the Company considers that users of the financial statements can rely on these statements.

"Southern Telecommunications Company" PJSC and its subsidiaries and dependent companies keep records in Russian rubles and make up financial statements in compliance with the Federal Law of the Russian Federation "On Accounting". These unaudited consolidated financial statements of "Southern Telecommunications Company" PJSC have been prepared on the basis of the unaudited financial statements of "Southern Telecommunications Company" PJSC and its subsidiaries and dependent companies made up in the format complying with the International Financial Reporting Standards taking into account the assumptions listed below.

**Restrictions and assumptions in the financial statements of "Southern Telecommunications Company"
PJSC for 6 months of 2005**

In preparing these unaudited consolidated financial statements, "Southern Telecommunications Company" PJSC used less procedures than could have been used in preparing annual consolidated financial statements. In this context, "Southern Telecommunications Company" PJSC has used some assumptions, including those concerning the carrying value of property, plant and equipment under IFRS and the value of pension obligations. The actual figures of the financial reporting for the year ending December 31, 2005 may differ from the figures of these financial statements, as there might have been some adjustments of the information on assumptions used by the Company and some other new information might have appeared.

These unaudited consolidated financial statements do not contain any information on comparable figures of the financial statements for 6 months of 2004. For comparison purposes, the Group presents audited financial figures for the year ended December 31, 2004 and as of December 31, 2004.

The content of the notes to the unaudited consolidated financial statements of "Southern Telecommunications Company" PJSC do not disclose fully all the information, the disclosure of which is required for compliance with the International Financial Reporting Standards. The content of the notes to the annual consolidated financial

statements of "Southern Telecommunications Company" PJSC may disclose information in a volume larger than disclosed in these unaudited consolidated financial statements of "Southern Telecommunications Company" PJSC.

2. Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

Buildings and constructions	20-50 years
Analog switches	10-20 years
Digital switches	10-15 years
Other telecommunication equipment	10-20 years
Transportation equipment	5 years
Computers, office and other equipment	3-5 years
Land	not depreciated

For the purposes of disclosure, property, plant and equipment are aggregated into the following groups:

- Land, buildings and constructions;
- Switches and transmission devices;
- Construction in progress and equipment for installation;
- Other assets, in which computers, vehicles and other equipment are included.

The period of validity of the Company's operating licenses is significantly shorter than the useful lives used for depreciation of the cost of property, plant and equipment. The Company's management believes that the operating licenses will be renewed without significant cost, which would allow the Company to realize the cost of its property, plant and equipment through normal operations.

Construction in progress is recorded as the total of actual expenditures incurred by the Company from the beginning of construction to the reporting date. Depreciation begins when fixed assets are put into operation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, interest costs on such borrowings are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are reflected in the profit and loss statement.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalized and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

IAS 36 "Impairment of Assets" requires that the recoverable amount of an asset, including property, plant and equipment, should be estimated whenever there is an indication that the assets may be impaired.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the profit and loss statement.

	Land, buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles and other assets	Total
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Net book value as of December 31, 2004	14 792 913	11 637 431	4 995 743	2 127 719	33 553 806
Net book value as of June 30, 2005	14 570 629	11 922 488	5 138 239	1 857 032	33 488 388

The Company has applied an exemption permitted by IFRS 1 which allows an entity to measure property, plant and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost. Management estimates that the carrying value of all of the Company's property, plant and equipment is broadly comparable to their fair values. However, management is engaging an independent appraiser to support these fair values and as a result, the reported carrying amount of property, plant and equipment may be adjusted.

Property, plant or equipment transferred to the Company free of charge outside the privatization process is capitalized at fair value at the date of transfer. A corresponding income is fully recognized in the profit and loss statement at the date of transfer. Exception is made in cases when fixed assets' transfer is connected to rendering services by the Company to the person who has transferred the fixed assets to be used in future. In such a case the Company recognizes deferred income at fair value of the received equipment and other fixed assets. The specified deferred income is recognized in the profit and loss statement and amortized during the useful life of the respective asset, from the starting date of rendering services by the Company to the person who has transferred such property, plant or equipment.

Fixed assets contributions that do not generate any future income for the Company are not recognized.

The net book value of plant and equipment held under finance leases at June 30, 2005 is 4,571,599 thousand rubles (2004 - 3,964,984 thousand rubles). Leased assets are pledged as security for the related finance lease obligations.

In the first half of 2005 the Company increased construction in progress by the amount of capitalized interest totaling 11,102 thousand rubles (2004 - 579,106 thousand rubles).

3. Intangible Assets

Intangible assets are capitalized at cost.

Licenses and software are depreciated on a straight-line basis over the estimated useful life equal to the term of license or of the right to use the software. Useful life of such intangible assets is 2-20 years.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and, when impaired, the asset is written down immediately to its recoverable amount.

	Licenses	Software	Other	Total
Net book value as of December 31, 2004	1 041	1 341 701	867	1 343 609
Net book value as of June 30, 2005	1 085	1 420 270	609	1 421 964

4. Subsidiaries

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

Subsidiary	Main activity	Equity interest, %		Voting stock	
		6 months 2005	2004	6 months 2005	2004
CJSC "Armavirskiy Zavod Svyazi"	Production activity	100	100	100	100
OJSC "Orbita" Recreational House"	Recreational services	100	100	100	100
CJSC "Yugsvyazstroy"	Construction	100	100	100	100

	services				
LLC "Intmashservice"	Other	100	100	100	100
LLC "Faktorial-99"	Consulting services	100	100	100	100
LLC «UTK-Finance»	Financial services	100	100	100	100
OJSC "Stavtelecom named after V.I.Kuzminov"	Telecommunications services	81	81	81	81
CJSC «CMTO»	Other	-	100	-	100

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

In accordance with the decision of the Company's Board of Directors of September 22, 2003 the Company acquired 19,134 (nineteen thousand one hundred and thirty four) ordinary registered shares of CJSC "Yugsvyazstroy" with a face value of 1,000 (one thousand) rubles each for 19,134 thousand (nineteen million one hundred and thirty four thousand) rubles. The Company's share in CJSC "Yugsvyazstroy" has not changed and makes 100% of the authorized capital. The shares were acquired in compliance with the terms of placement of additional securities' issue (closed subscription).

In April 2005 in accordance with the decisions of the Company's Board of Directors the Company sold its share in CJSC "CMTO" for 45,010 thousand rubles.

5. Investments in associates

Investments in associates at June 30, 2005 and December 31, 2004 included:

Associate	Main activity	6 months 2005		2004	
		Voting stock	Carrying value	Voting stock	Carrying value
CJSC «Volgograd-GSM»	Telecommunication services	50	470 969	50	462 036
CJSC «TeleRoss-Kubanelectrosvyaz»	Telecommunication services	50	18 020	50	15 309
CJSC «Stavropolskaya Sotovaya Svyaz»	Cellular services, AMPS	50	11 981	50	13 156
LLC «Yug-Giprosvyaz»	Project engineering	24	5 936	24	26 239
CJSC «Karachayevo-Cherkessk TeleSot»	Cellular services, GSM	20	4 609	20	6 095
CJSC «TeleRoss-Volgograd»	Telecommunication services	50	3 826	50	3 851
CJSC «ZanElCom»	Internet services	45	17	45	29
CJSC «IR Telekompaniya»	TV and radio broadcasting	23.5	-	23.5	-
CJSC "Kabardino-Balkar GSM"	Cellular services, GSM	20	-	20	-
CJSC «SKET»	TV and radio broadcasting	-	-	26.8	162
Total			515 358		526 876

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

CJSC "IR Telekompaniya" reported accumulated losses in the amount of 223 and 598 thousand rubles as of June 30, 2005 and December 31, 2004, respectively. CJSC "Kabardino-Balkar GSM" reported accumulated losses in the amount of 1,064 and 883 thousand rubles as of June 30, 2005 and December 31, 2004, respectively. As the

Company's share in accumulated losses of these associates exceeded the interest in the associates, the Company did not recognize further losses.

In June 2005 in accordance with the decision of the Company's Board of Directors of February 4, 2005 (minutes № 24) the Company sold its shares in OJSC "SKET" for 192 thousand rubles.

6. Long-term and short-term financial investments

As of June 30, 2005 and December 31, 2004 financial investments included:

	6 months 2005	2004
Long-term financial investments available for sale	28 236	27 678
Total long-term financial investments	28 236	27 678
Short-term financial investments available for sale	35 039	38 049
Total short-term financial investments	35 039	38 049
Total financial investments	63 275	65 727

7. Long-Term Loans Given and Other Assets

As of June 30, 2005 and December 31, 2004 long-term accounts receivable and other assets included:

	6 months 2005	2004
Long-term accounts receivable	527 418	519 877
Long-term loans given to employees	16 788	18 646
Long-term loans given to legal entities	1 279	2 180
Other long-term financial assets	19 239	25 653
Total	564 725	566 355

8. Inventories

As of June 30, 2005 and December 31, 2004 inventories included the following:

	6 months 2005	2004
Cable, materials and spare parts for telecommunications equipment	805 664	842 325
Finished goods and goods for resale	103 641	98 864
Small tools and other inventories	90 493	94 171
Total	999 798	1 035 360

9. Accounts receivable

Accounts receivable as of June 30, 2005 and December 31, 2004 comprised the following:

	6 months 2005	2004
Trade receivables – telecommunication services	1 486 185	1 476 266

Trade receivables – other	110 009	51 704
Provision for impairment of receivables	(751 453)	(474 238)
Total	844 741	1 053 732

The Company identified accounts receivable for telecommunication services by the following major customer groups:

	6 months 2005	2004
Corporate customers	253 392	231 126
Residential customers	448 065	483 220
Tariff compensation from the state budget	622 306	627 533
Governmental customers	162 422	134 387
Total	1 486 185	1 476 266

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

10. Other Current Assets

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

	6 months 2005	2004
VAT recoverable	967 305	1 244 656
Prepayments and advances	471 823	432 941
Prepaid income tax	142 772	112 175
Other prepaid taxes	15 120	14 253
Short-term loans given	-	13 950
Other receivables and current assets	120 570	56 839
Total	1 717 590	1 874 814

11. Cash and Cash Equivalents

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

	6 months 2005	2004
Cash at bank and on hand	215 597	461 969
Other cash equivalents	1	1 087
Total	215 598	463 056

12. Share capital

The authorized number of ordinary and preference shares are 2,960,512,964 (2004 – 2,960,512,964 shares) and 972,151,838 (2004 – 972,151,838 shares) respectively.

All authorized shares have been issued and fully paid.

The par value of each authorized share is 0.33 rubles. The ordinary shareholders, which represent 75% of the share capital, are entitled to one vote per share. Class A preference shares, which represent 25% of the share capital, give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to reorganization and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. The preference shares have no rights of redemption or conversion but carry non-cumulative dividends of 10% of Russian accounting net income for the year. Annual amount of dividends on class A preference shares may not be less than dividends on ordinary shares. If the Company fails to pay dividends, or has no profits in any year, the preferred shareholders have the right to vote on all agenda items in the general shareholders' meeting. The shareholders – holders of the preferred Class A shares have the priority right to repayment of the par value of preference shares belonging to such shareholders at liquidation of the Company.

As of June 30, 2005 the par value and carrying value of ordinary and preference shares were as follows:

Type of share	Number of outstanding shares, shares	Par value per one share	Total par value of shares	Carrying value of shares
Ordinary	2,960,512,964	0.33	976,969	2,287,953
Preference	972,151,838	0.33	320,810	751,302
TOTAL			1,297,779	3,039,255

The difference between the total par value and the total carrying value of share capital represents the effects of inflation of periods prior to January 1, 2003.

13. Borrowings

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

	Range of interest rate	6 months 2005	2004
<i>Short-term borrowings</i>			
Bank loans:			
Bank loans (Rubles)	10% - 13.5%	1 734 381	751 298
Vendor financing (US dollars)	6.7% - 8.0%	3 285	14 058
Vendor financing (Euro)	4.0% - 8.5%	424 598	237 427
Promissory notes (Rubles)	13.0% - 15.7%	1 113 196	1 976 771
Interest payable		441 713	836 596
Total short-term borrowings		3 717 173	3 816 150

<i>Long-term borrowings</i>			
Bank loans:			

Bank loans (Rubles)	11.6% - 20%	8 558 305	8 550 489
Total bank loans		8 558 305	8 550 489
Bonds (Rubles)	12.3% - 14.24%	6 468 045	6 440 351

Vendor financing:			
Vendor financing (Euro)	6% - 8.5%	713 011	932 924
Vendor financing (US dollars)	6% - 8%	427 033	50 971
Vendor financing (Japanese Yen)	7.56%	2 241	20 689
Total vendor financing		1 142 285	1 004 584
Promissory notes (Rubles)		991 713	605 475
Total long-term borrowings		17 160 348	16 652 961
Less: Current portion of long-term borrowings		(8 858 989)	(5 145 301)
Total long-term borrowings. net of current portion		8 301 359	11 507 660

14. Accounts Payable, Advances Received and Accrued Expenses

As of June 30, 2005 and December 31, 2004 the Company's accounts payable, advances received and accrued expenses comprised the following:

	6 months 2005	2004
Accounts payable for to equipment suppliers and contractors	1 732 370	2 355 249
Salaries and wages	407 571	415 472
Trade accounts payable	356 781	560 558
Advances received from subscribers	305 265	351 668
Other accounts payable	32 319	48 166
Total	2 834 306	3 731 115

Other accounts payable include outstanding debts in relation to voluntary insurance, rental fees, payments to Non-Commercial Partnership, Gossvyaznadzor, etc.

15. Taxes Payable

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

	6 months 2005	2004
Value added tax	153 027	200 114
Property tax	161 040	158 137
Unified social tax	109 563	119 250
Income tax	6 358	69 157
Individual income tax	32 248	27 189
Other taxes	15 138	10 699
Total	477 374	584 546

16. Revenues

Revenue types	6 months 2005	2004
Long distance telephone services - national	2 887 794	5 894 025
Local telephone calls	3 030 693	4 786 789
Installation and connection fees	343 584	1 423 746
Long distance telephone services - international	559 965	1 095 773
Services for national operators	281 920	876 924
New services (Internet, IP – telephony, ISDN)	623 831	803 421
Rent of telephone channels	400 136	624 930
Other telecommunications services	212 635	394 872
Cellular services	3 523	209 224
Construction services	92 538	193 463
Radio and TV broadcasting	98 960	192 045
Sale of cable production	223	185 359
Data transfer and telematic services	80 434	170 750
Sale of goods	14 442	124 461
Recreational services	44 100	106 382
Revenue from rent of assets (excluding rent of telephone channels)	54 916	93 635
Documentary services	27 276	70 515
Agency fees	13 123	21 613
Other non-telecom revenues	206 407	54 881
Total	8 976 500	17 322 808

17. Interest Expense, net

	6 months 2005	2004
Interest expense	1 518 616	1 571 050
Interest expense accrued on financial leases	320 041	511 507
Interest expense accrued on vendor financing	3 938	10 096
Interest income	(4 844)	(11 709)
Total interest expense, net	1 837 751	2 080 944

18. Subsequent Events

In the third quarter of 2005 in accordance with the decision of the Board of Directors of OJSC “Kuzminov Stavtelecom” (Minutes № 13 of July 7, 2005) the authorized share capital of the subsidiary was decreased through repayment of its shares by the Issuer from the minority shareholders. As a result share of "Southern Telecommunications Company" PJSC in OJSC “Kuzminov Stavtelecom” constituted 100% in August 2005.

In September 2005 the Company bought 1,257,454 shares of additional issue of OJSC «Information Technologies in Telecommunications» for a face value of 10 rubles per share. The share of the Company in the authorized capital has not changed and makes 10 %.