

CenterTelecom OJSC

Unaudited Consolidated Financial Statements

for 6 months ended on June 30, 2005

**Unaudited Consolidated Financial Statements
of CenterTelecom OJSC**
for 6 months ended on June 30, 2005

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CenterTelecom OJSC
Unaudited Consolidated Balance Sheets
as of June 30, 2005 and December 31, 2004
(ths. RUB)

	<u>Notes</u>	<u>June 30, 2005</u>	<u>December 31, 2004</u>
ASSETS			
Non-current assets			
Fixed assets		29 580 626	30 000 961
Intangible assets and goodwill		3 442 358	3 328 070
Financial investments in associated companies		17 727	15 927
Long-term financial investments		8 631	13 662
Long-term receivables and other financial assets		400 370	323 626
Long-term advances paid		867 466	1 056 076
Deferred profit tax asset		158 441	-
Total Non-current assets		34 475 619	34 738 322
Current assets			
Inventories		591 983	577 518
Receivables		1 836 334	1 936 643
Current profit tax asset		445 167	0
Other current assets		1 816 545	2 369 709
Cash and cash equivalents		1 608 236	1 417 214
Total Current assets		6 298 265	6 301 084
Total Assets		40 773 884	41 039 406
EQUITY AND LIABILITIES			
Preference shares		1 725 020	304 840
Ordinary shares		5 175 145	914 526
Change in fair value of financial investments for sale			4 517
Incremental capital, retained profits and other reserves		5 479 975	11 340 893
Total Equity referred to the shareholders of the group's parent company		12 380 140	12 564 776
Minority interest		13 180	23 974
Total Equity		12 393 320	12 588 750
Long-term liabilities			
Long-term credits and loans		14 657 559	12 972 648
Long-term financial lease obligations		1 667 187	1 775 171
Long-term accounts payable on taxes and social security		25 226	24 346
Deferred income		617 363	617 789
Deferred profit tax liabilities		0	122 849
Other long-term liabilities		4 311	13 254
Total Long-term liabilities		16 971 646	15 526 057
Current liabilities			
Accounts payable and accrued liabilities		2 665 424	3 176 723
Accounts payable to Rostelecom OJSC		196 742	191 544
Accounts payable on taxes and social security		1 270 577	1 395 882
Dividends payable		158 224	15 241
Short-term credits and loans		3 249 158	4 572 646
Portion of long-term credits and loans payable within a year		3 220 061	2 900 072
Short-term portion of financial lease obligations		648 734	672 491
Total Current Liabilities		11 408 918	12 924 599
Total Liabilities		28 380 564	28 450 656
Total Equity and Liabilities		40 773 884	41 039 406

General Director _____ R. A. Amaryan Chief Accountant _____ R. P. Konstantinova

The Notes attached form an integral part of the present Consolidated Statements

CenterTelecom OJSC
Unaudited Consolidated Profit and Loss Accounts
for 6 months of 2005, and 12 months of 2004
(ths. RUB)

	Notes	6 months of 2005	2004
Income		13 594 312	26 047 204
Salaries and wages, other payments and social charges		(4 429 514)	(9 413 121)
Depreciation and amortization		(2 258 844)	(4 243 359)
Materials, repair and maintenance, utilities		(1 302 833)	(2 499 688)
Taxes other than profit tax		(381 893)	(627 418)
Expenses on communication operators' services – international companies		(614)	0
Expenses on communication operators' services – Russian companies		(1 961 215)	(4 048 930)
(Expense) Recovery of provision for bad debts		(259 791)	(831 322)
Profit (Loss) from fixed assets disposal		54 431	1 150
Other operating income (expenses)		(1 610 656)	(3 471 798)
Operating Profit (Loss)		1 443 383	912 718
Profit (Loss) from participation in associated companies		2 226	2 282
Interest (expenses) income, net		(1 434 662)	(2 032 987)
Profit (Loss) from financial investments		1 338	274 243
Exchange loss from revaluation of currencies, net		69 902	59 845
Profit (Loss) before taxation		82 187	(783 899)
Profit tax		(51 888)	(126 069)
(Expenses) profit tax compensation – current tax		(329 492)	(533 530)
(Expenses) profit tax compensation – deferred tax		277 604	407 461
Profit (Loss) for the reporting period		30 299	(909 968)
Profit (Loss) referred to the shareholders of the group's parent company		31 927	(917 971)
Profit (Loss) referred to the minority shareholders of subsidiaries		(1 628)	8 003
Profit (Loss) for the reporting period		30 299	(909 968)

General Director _____ R. A. Amaryan Chief Accountant _____ R. P. Konstantinova

The Notes attached form an integral part of the present Consolidated Statements

CenterTelecom OJSC
Notes to the Unaudited Consolidated Financial Statements
for 6 months of 2005
(ths. RUB)

1. General Information

Confirmation

The unaudited consolidated financial statements of CenterTelecom OJSC ("the Company") and its subsidiaries (jointly referred to as "the Group") were prepared for 6 months of 2005.

Principles of preparation of the unaudited consolidated financial statements

The financial statements of CenterTelecom OJSC made in accordance with the IFRS for 6 months of 2005 are limited to the Balance Sheet and Profit and Loss Account. The present statements do not include all the disclosures as required by the IFRS, however, are sufficient to represent financial status and performance of the Company for 6 months of 2005.

It is the first time that CenterTelecom OJSC presents financial statements in accordance with the IFRS for 6 months; CenterTelecom OJSC has not presented such statements before. These statements represent unaudited consolidated financial statements of CenterTelecom OJSC. Audit, review and other similar procedures will be applied to these statements. At the same time, taking into account experience of CenterTelecom OJSC in the field of reporting in accordance with the IFRS, the Company believes that users of the financial statements may rely on such statements.

CenterTelecom OJSC and its subsidiaries and related companies maintain their accounting records in Russian Rubles and make financial statements in accordance with the Federal Law of the Russian Federation "On Accounting". The present unaudited consolidated financial statements of CenterTelecom OJSC have been prepared based on the unaudited financial statements of CenterTelecom OJSC and its subsidiaries and related companies made in the format corresponding to the International Financial Reporting Standards and under assumptions described below.

The scope of procedures carried out by CenterTelecom OJSC in preparation of the present unaudited consolidated financial statements is less than could have been applied when preparing annual consolidated financial statements. In this connection, CenterTelecom OJSC made some assumptions, including those on fair value of assets and liabilities of subsidiaries and related companies acquired, value of obligations on pension plans, deferred income, provisions for depreciation of fixed assets, inventories and receivables. Actual indicators of the financial statements for the year ended on December 31, 2005, may differ from those in the present financial statements due to adjustment of the information on the assumptions made by the Company and new information.

The present unaudited consolidated financial statements do not include any information on comparable indicators of financial statements for 6 months of 2004. For the purpose of comparison, the Group presents financial indicators for the year ended on December 31, 2004 and as of December 31, 2004.

The notes to the unaudited consolidated financial statements of CenterTelecom OJSC do not disclose all the information, disclosure of which is required by the International Financial Reporting Standards. The notes to the annual consolidated financial statements of CenterTelecom OJSC may disclose larger scope of information than disclosed in the present unaudited consolidated financial statements of CenterTelecom OJSC.

CenterTelecom OJSC
Notes to the Unaudited Consolidated Financial Statements
for 6 months of 2005
(in ths. RUB)

2. Fixed assets

Fixed assets are recorded at cost of acquisition or construction less accumulated depreciation and any impairment in value.

Fixed assets are depreciated by the straight-line method. Estimated times of depreciation taken nearly equal to estimated useful lives of the assets are presented below:

Buildings	50 years
Constructions	20 years
Analogue switches	15 years
Digital switches	15 years
Other telecommunication equipment	15 years
Vehicles	5 years
Computers, office and other equipment	4-5 years
Land sites	Not amortized

For the purpose of information disclosure, the fixed assets are grouped as follows:

- Land sites, buildings and constructions;
- Switches and transmission devices;
- Construction in progress and equipment for installation;
- Other fixed assets, including computers, vehicles and other equipment.

The period of validity of the Company's operating licenses is significantly shorter than the useful lives used for depreciation. The management believes that the operating licenses will be prolonged without significant costs, which would allow the Company to realize the cost of its fixed assets through its normal business.

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

Interest on loans obtained for financing construction of fixed assets are capitalized within the cost of the fixed assets item within the period required for completion of construction and preparation of the item for its intended use. Other expenses on loans are recorded in the Profit and Loss Account.

The costs of repair and maintenance are charged to expenses when incurred. The costs of reconstruction and modernization are capitalized, and the replaced items are written off. Any gains or losses resulting from assets writing-off are charged to financial result when the assets are written-off.

IAS 36 "Impairment of Assets" envisages necessary assessment of recoverable value of assets, including fixed assets, if objective facts are available to evidence their possible impairment.

The carrying value of fixed assets is analyzed for impairment, when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and the carrying value exceeds the estimated recoverable amount, the value of the assets or cash-generating units is written down to their recoverable value. The recoverable value of fixed assets is net selling price of the asset or its value in use, whichever is the greater.

CenterTelecom OJSC
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(in ths. RUB)

2. Fixed assets

In assessing value of an asset in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of finance and risks related to the asset. For the assets that do not generate cash inflows, the recoverable value is determined for the cash-generating unit, to which such assets belong. Impairment expenses are recognized in the Profit and Loss Account.

	Land sites, buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles, other fixed assets	Total
Residual value as of December 31, 2004	11 426 407	11 606 109	3 474 434	3 494 011	30 000 961
Residual value as of June 30, 2005	10 773 145	11 082 426	4 101 010	3 624 045	29 580 626

The Company has applied an exception envisaged by IFRS 1 that allows organizations to assess fixed assets at fair value as of the date of transfer to IFRS and use such fair value as actual value of the fixed assets. The management supposes that the carrying value of all the fixed assets of the Company is comparable with their fair value, but, nevertheless, proceeds with an independent appraiser to confirm such fair value, hence, the carrying value of the fixed assets may be subject to adjustments.

The cost of manufacturing equipment and other fixed assets items related to the main activities of the Company that were transferred to the Company free of charge outside the privatization process is capitalized at fair value as of the date of the equipment transfer. Income from receiving the said fixed assets items is fully recognized in the Profit and Loss Account as of the moment of transfer with the exception of cases when transfer of fixed assets items is related to the Company's rendering services to an entity that has transferred the fixed assets with future use of such assets. In such a case the Company recognizes deferred income in the amount of fair value of the received equipment and other fixed assets items. The said deferred income is recognized in the Profit and Loss Account as the received fixed assets are depreciated within their useful lives as from the date when the Company started to render services to the entity that transferred the assets.

If the fixed assets received free of charge do not generate income for the Company in the future, they are not recognized in the financial statements.

As of June 30, 2005 residual value of fixed assets transferred to the Company under financial lease makes RUB 3,455,146 ths. (RUB 3,387,850 ths. in 2004). The Company uses fixed assets received under financial leases as a security for the relevant lease obligations.

During first 6 months of 2005 the Company increased the value of construction in progress by the amount of capitalized interest equal to RUB 79,975 ths. (RUB 364,281 ths. in 2004).

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3. Intangible Assets

Intangible assets are capitalized at acquisition cost.

Licenses and software received are depreciated by equal portions within the estimated useful lives of the said assets, which are equal to the period of validity of a license or rights to use software. Useful life of other intangible assets makes 5 years.

If any indications of decrease in value of intangible assets are detected, the carrying value of each asset is assessed, and, if decrease in value is detected, the carrying value is immediately written down to the recoverable amount.

	Goodwill	Licenses	Software	Total
Residual value as of December 31, 2004	1 207 063	11 532	2 109 475	3 328 070
Residual value as of June 30, 2005	1 207 917	12 007	2 222 434	3 442 358

4. Subsidiaries

The present consolidated financial statements include the property, liabilities and performance of CenterTelecom OJSC and its subsidiaries listed below:

Company name	Main activities	Participation interest, %		Percentage of voting shares	
		6 months of 2005	2004	6 months of 2005	2004
Vladimir Teleservice CJSC	Internet, IP telephony services	100%	100%	100%	100%
MobilCom Ltd.	Mobile radiotelephone communication (MRT-1327, SN-11)	100%	100%	100%	100%
Teleport-Ivanovo Ltd.	Sales of communications facilities, data transmission network services, cellular communications	100%	100%	100%	100%
Telecom-Terminal Ltd.	Sales and repair of terminal devices	100%	100%	100%	100%
Telecom-Stroy Ltd.	Line network maintenance, boiler unit operation, civil engineering, cleaning	100%	100%	100%	100%
OJSC RTS	Telephony, data transmission, telematic services, rent of communication channels, system integration	100%	100%	100%	100%

Company name	Main activities	Participation interest, %		Percent of voting shares	
		6 months of 2005	2004	6 months of 2005	2004
Aerokom OJSC	Telephony, data transmission, telematic services, rent of channels, system integration	100%	99.62%	100%	99.62%
CenterTelecomService of Moscow Region CJSC	Data transmission services	100%	76%	100%	76%
Telecom of Ryazan Region CJSC	Local, domestic long distance and international communications through universal cardphones	50.9%	50.9%	50.9%	50.9%
TeleRoss-Voronezh CJSC	Agents of SCS Sovintel Ltd. on communication services	50%	50%	50%	50%
Tver-Telecom Ltd.	Local and in-zone telephone communication	85%	85%	85%	85%
Svyaz-Service-Irga Ltd.	Design and laying of communication lines	70%	70%	70%	70%
CenterTelecom Service CJSC	Local, domestic long distance and international telephone communication services, data transmission, rent of channels	74.9%	74.9%	74.9%	74.9%
Vladimirsky Taxophon Ltd.	Local, domestic long distance and international telephone communication services through universal cardphones	51%	51%	51%	51%
Vlad-Page Ltd.	Services of personal radio calls	75%	75%	75%	75%
RTN (UK) Limited	Interoperator interaction	100%	100%	100%	100%
Rosnet International CJSC	Agency activities	99%	99%	99%	99%
Ortes Ltd.	Telecommunication services	100%	100%	100%	100%
Restel CJSC	Agency activities	100%	100%	100%	100%
Rosnet Neva Ltd.	Agency activities	100%	100%	100%	100%

All the above companies (excluding RTN (UK) Limited) are Russian legal entities registered in accordance with the laws of the Russian Federation, and their financial year is similar to that of the Company.

In January 2005 the Company additionally acquired 24% of shares of CenterTelecomService of Moscow Region CJSC, thus, increasing its shareholding from 76% to 100%. The acquisition cost made RUB 7,937 ths., and was fully paid up in cash.

On May 24, 2005 the Company acquired 0.38% of ordinary shares of Aerokom OJSC, thus, bringing its shareholding up to 100%. The acquisition cost made RUB 991 ths. and was fully paid up in cash.

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5. Financial investments into associated companies

As of June 30, 2005 and December 31, 2004 financial investments of the Company into associated companies included:

Company name	Type of activities	6 months of 2005		2004	
		Percent of voting shares	Carrying value	Percent of voting shares	Carrying value
Joint activities	Radiotelephone communication services (CDMA)	30%	14 579	30%	14 579
IC Costars CJSC	Life insurance for employees of communication enterprises	28%	4 615	28%	2 815
Rinfotels Telecommunication Company OJSC	Communication services	26%	1 348	26%	1 348
Trunksvyaz OJSC	Communication services	25%	-	25%	-
Smolensk Cellular Telecommunications CJSC	Cellular services	40%	-	40%	-
Belgorod Cellular Network CJSC	Cellular services	30%	-	30%	-
Provision for impairment			(2 815)		(2 815)
Total			17 727		15 927

All the above companies are Russian legal entities registered in accordance with the laws of the Russian Federation and their financial year is similar to that of the Company.

6. Long-term loans granted to personnel, and other financial assets

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

	6 months of 2005	2004
Long-term loans extended to personnel	20 245	24 474
Long-term receivables	380 125	299 152
TOTAL	400 370	323 626

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Notes to the Unaudited Consolidated Financial Statements
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(in ths. RUB)

7. Inventories

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

	6 months of 2005	2004
Cable, spare parts and materials for telecommunication equipment	555 173	551 029
Finished goods and goods for resale	32 921	21 692
Other inventories	3 889	4 797
TOTAL	591 983	577 518

8. Receivables

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

	6 months of 2005	2004
Settlements with subscribers on communication services	3 791 628	3 777 524
Other receivables	220 665	152 865
Provision for doubtful debts	(2 175 959)	(1 993 746)
TOTAL	1 836 334	1 936 643

The Company identified the following major debtor groups on settlements on communication services:

	6 months of 2005	2004
Commercial organizations	571 812	580 578
Residential customers	1 135 964	1 090 091
Budget organizations	2 083 852	2 106 855
TOTAL	3 791 628	3 777 524

The Company invoices state-owned and commercial organizations for communication services in Rubles on a monthly basis. All the customer payments are made in accordance with the tariffs set forth in Rubles effective as of the moment of the services rendering.

CenterTelecom OJSC
Notes to the Unaudited Consolidated Financial Statements
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(in ths. RUB)

9. Other current assets

As of June 30, 2005 and December 31, 2004 other current assets included:

	<u>6 months of 2005</u>	<u>2004</u>
VAT recoverable	714 307	1 269 407
Deferred expenses	468 814	202 625
Prepayments and advances	318 995	206 130
Other settlements and current assets	272 584	622 899
Prepayments on other taxes	23 348	28 941
Settlements with personnel	16 399	10 783
Short-term loans granted	2 098	28 924
TOTAL	<u>1 816 545</u>	<u>2 369 709</u>

10. Cash and cash equivalents

As of June 30, 2005 and December 31, 2004 other cash and cash equivalents included:

	<u>6 months of 2005</u>	<u>2004</u>
Cash at bank and in hand	1 608 236	1 416 586
Short-term bank deposits with term under three months	0	628
TOTAL	<u>1 608 236</u>	<u>1 417 214</u>

11. Authorized capital

As of June 30, 2005 and December 31, 2004 the number of ordinary and preference shares made 1,576,006,833 and 525,992,822 shares, respectively. All the shares issued were fully paid up.

Type of shares	Number of shares issued (ths.)	Par value per share	Nominal value	Carrying value
Ordinary	1 578 007	3	4 734 021	5 175 145
Preference	525 993	3	1 577 979	1 725 020
TOTAL	2 104 000		6 312 000	6 900 165

The difference between nominal and carrying value of the shares represents the effect of inflation for the periods prior to 01.01.2003.

Of the total number of the shares issued as of June 30, 2005, 75% of the shares represented ordinary shares, and 25% preference shares. Each ordinary share allows its holder one vote. Preference shares allow their holders to participate in general shareholder meetings without vote, except for resolutions on reorganization and liquidation of the Company, as well as amendment and supplementation of the Company's Articles of Association that limit the rights of preference shares holders. Shareholders of preference shares are not entitled to require buy-out or conversion of shares, however, are entitled to receive non-cumulative dividends in the amount of 10% of net profit

CenterTelecom OJSC
Notes to the Unaudited Consolidated Financial Statements
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(in ths. RUB)

11. Authorized capital

as recorded in the statements made in accordance with the Russian accounting regulations. Annual amount of dividends on preference shares may not be less than dividends on ordinary shares. When the Company does not disburse dividends, or when the Company does not have profit at the end of a year, shareholders of preference shares are granted voting right on all the issues referred to the competence of the general shareholder meeting. Shareholders of preference shares have a preferred right to recover the par value of preference shares in liquidation.

12. Debts on credits and loans

As of June 30, 2005 and December 31, 2004 debts on credits and loans included:

	Effective interest rate	6 months of 2005	2004
Short-term debts			
Bank loans:			
Bank loans (Rubles)	13,97%	2 273 226	1 717 165
Bank loans (USD)	10,30%	2 495	3 352
Bank loans (Euro)	7,13%	315 415	370 281
Bank loans (other currencies)	4,79%	1	3
Total bank loans		2 591 137	2 090 801
Bonds (Rubles)	13,51%	368 974	373 475
Vendor credits:			
Vendor credits (Rubles)	18,26%	2 315	44 534
Vendor credits (USD)	9,00%	264	693 161
Vendor credits (Euro)	7,82%	1 033	2 478
Total vendors credits		3 612	740 173
Notes (Rubles)	13,99%	285 435	1 368 197
Total short-term debts		3 249 158	4 572 646

CenterTelecom OJSC
Notes to the Unaudited Consolidated Financial Statements
for 6 months of 2005
(in ths. RUB)

12. Debts on credits and loans

Long-term debts

Bank loans:

Bank loans (Rubles)	13,49%	6 884 365	5 516 385
Bank loans (USD)	8,94%	228 721	338 092
Bank loans (Euro)	7,02%	253 829	485 599
Bank loans (Yens)	4,79%	810	5 830

Total bank loans		7 367 725	6 345 907
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Bonds (Rubles)	13,42%	7 398 011	8 092 787
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Vendor credits:

Vendor credits (Rubles)	18,26%	43 264	13 607
Vendor credits (USD)	9,28%	424 901	405 249
Vendor credits (Euro)	8,65%	133 707	233 860

Total vendor credits		601 872	652 716
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Notes (Rubles)		2 424 060	669 928
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Loans of related parties (Svyazinvest OJSC, Note 33)		13 000	29 000
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Restructured customer payments for connection (Rubles)		72 952	82 382
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Less current portion of long-term credits and loans		(3 220 061)	(2 900 072)
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Total long-term debts		14 657 55	12 972 648
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Debts on credits and loans include debts on interest in the amount of 390,341 as of June 30, 2005 (486 605 in 2004).

13. Accounts payable, accrued liabilities and advances received

As of June 30, 2005 and December 31, 2004 accounts payable and other current liabilities of the Company included:

	6 months of 2005	2004
Accrued liabilities on salary and wages and compensation payments	524 913	305 842
Settlements with vendors and contractors for capital construction	1 009 534	1 633 963
Accounts payable on main operations	520 435	568 162
Advance payments of subscribers	386 631	425 230
Other accounts payable	223 911	243 526
TOTAL	2 665 424	3 176 723

Other accounts payable include debts on voluntary insurance, operating lease, etc.

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14. Accounts payable on taxes and social security

As of June 30, 2005 and December 31, 2004 the Company identified the following short-term debts on taxes:

	6 months of 2005	2004
Value added tax	826 079	845 639
Single social tax	112 605	14 216
Property tax	156 300	149 203
Income tax, individuals	59 703	968
Other taxes	115 890	62 242
TOTAL	1 270 577	1 072 268

15. Operating income

By income types	6 months of 2005	2004
Provision of domestic long distance telephone connections	4 106 746	9 165 243
Provision of international telephone connections	864 584	1 782 194
Income from local telephone connections	5 102 897	7 906 535
Payment for installation and connection	670 543	2 037 886
Documentary telecommunications	33 349	89 383
Cellular services	127 811	322 012
Radio and TV broadcasting	339 466	678 310
Data transmission and telematic services	168 027	388 046
New services (Internet, IP telephony, ISDN)	622 378	918 873
Rent of telephone channels	138 028	187 603
Services to Russian communication operators	493 371	730 920
Other communication services	516 512	813 837
Other services	410 600	1 026 362
TOTAL	13 594 312	26 047 204

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16. Other operating expenses

	6 months of 2005	2004
Expenses on fire service and private security	213 671	388 577
Expenses on lease of spaces and other property	199 202	370 544
Transport services	84 256	174 640
Expenses on audit and consulting services	53 866	144 439
Insurance	105 967	273 045
Traveling and representation	22 760	50 590
Membership fees, charity activities and charges to trade unions	38 579	115 758
Advertising expenses	54 414	134 669
Tax fines and penalties	2 619	21 893
Postal services	7 778	15 312
Training expenses	20 363	72 204
Other expenses	807 181	1 710 127
TOTAL	1 549 276	3 471 798

Increase in expenses is caused by accrual of expenses on provision of universal servicing, raised tariffs on electricity and heating, growth of expenses on equipment repair and maintenance.

17. Expenses on interest, net

	6 months of 2005	12 months of 2004
Income on interest	1 035	62 639
Expenses on interest	(1 163 285)	(1 680 810)
Expenses on interest accrued on financial lease agreements	(272 412)	(414 816)
TOTAL	(1 434 662)	(2 032 987)

18. Settlements and transactions with related parties

Svyazinvest Group OJSC

Svyazinvest OJSC, the parent company of CenterTelecom OJSC, was fully owned by the state before July 1997, when the Government of the Russian Federation sold 25% of shares plus one share of Svyazinvest OJSC to private investors.

Availability of effectively functioning communication and data transmission network is extremely important for Russia due to a number of reasons, including economic, strategic and national securities interests. In this connection the Government has and will most likely have significant influence on the activities of Svyazinvest OJSC and its subsidiaries.

Influence of the Government is not limited to the shareholding of Svyazinvest OJSC shares. The Government reserves the rights to regulate tariffs, including those on international telephone communication. Moreover, the Ministry for Information Technologies and Communications of the Russian Federation controls the process of licensing companies providing telecommunication services.

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18. Settlements and transactions with related parties

Rostelecom OJSC

Rostelecom OJSC, a controlling share block of which is owned by Svyazinvest OJSC, is the primary operator of domestic long distance and international communications in the Russian Federation. Annual expenses on payment for Rostelecom OJSC services are associated with traffic carried by the Company outside its network. The said expenses are included in expenses related to supporting international and domestic long distance traffic transmission. Moreover, Rostelecom OJSC uses the Company's network for transmission of incoming domestic long distance and international traffic of its subscribers and customer operators.

Description of transaction	6 months of 2005	2004
Expenses on Rostelecom OJSC	1 554 574	3 188 927
Income from Rostelecom OJSC	599 513	1 196 280
Accounts payable	188 060	191 544

Remuneration of key managerial staff

Key managerial staff includes members of the Company's Board and Board of Directors. As of June 30, 2005 and December 31, 2004 the number of key managerial staff made 22 persons. Total amount of remuneration of key managerial staff recorded in "Salaries and wages, other payments and social charges" line of the Profit and Loss Account made 18,518 for 6 months of 2005, and 51,244 for the year ended on December 31, 2004.

Remuneration of the key managerial staff consists of basic salary agreed in the contract, bonus based on the performance, as well as expenses on non-governmental pension plans.