OAO ROSTELECOM

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED DECEMBER 31, 2004

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

To the Shareholders of OAO Rostelecom

1. International convention requires that management prepare consolidated financial statements which present fairly, in all material respects, the state of affairs of the Group at the end of each financial period and of the results and cash flows for each period. Management are responsible for ensuring that all Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards and that their statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management considers that, in preparing the consolidated financial statements set out on pages 5 to 60, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that appropriate International Financial Reporting Standards have been followed.

3. The consolidated financial statements, which are based on the statutory accounting reports adjusted to comply with International Financial Reporting Standards, are hereby approved on behalf of the Board of Directors.

For and on behalf of the Board of Directors:

D.E. Erokhin,
General Director

OAO Rostelecom
1st Tverskaya-Yamskaya, 14,
Moscow
Russian Federation

June 22, 2005

Report of Independent Auditors

To the Board of Directors and Shareholders of OAO Rostelecom

We have audited the accompanying consolidated balance sheets of OAO Rostelecom, an open joint stock company, and subsidiaries (hereinafter referred to as the "Group") as of December 31, 2004 and 2003, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Group's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with International Financial Reporting Standards as published by the International Accounting Standards Board.

As described in Note 2 to the consolidated financial statements, the 2003 and 2002 consolidated financial statements have been restated to adjust the Group's accounting for revenue and expense estimates from local operators, pension benefits and its earnings per share calculations.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 36 to the consolidated financial statements.

Moscow, Russia
June 22, 2005

	Notes	December 31, 2004	December 31, 2003 (as restated, see Note 2)
ASSETS			
Property, plant and equipment, net	7	45,987	49,585
Investments in associates	9	2,511	2,381
Long-term financial investments	10	264	126
Goodwill	11	9	17
Other non-current assets		17	26
Non-current assets		**48,788**	**52,135**
Inventory		614	548
Accounts receivable, net	12	5,613	7,081
Short-term investments	13	8,150	2,755
Cash and cash equivalents	14	1,255	2,529
Current assets		**15,632**	**12,913**
Total assets		**64,420**	**65,048**
Share capital	15	100	100
Retained earnings		50,738	47,870
Total shareholders' equity		**50,838**	**47,970**
Minority interest	16	**-**	**191**
Accounts payable and accrued expenses	17	4,005	3,688
Taxes payable		1,154	1,778
Current portion of interest bearing loans	18	1,107	1,932
Current liabilities		**6,266**	**7,398**
Interest bearing loans – net of current portion	18	777	1,641
Non-current accounts payable		585	366
Deferred tax liability	19	5,954	7,482
Non-current liabilities		**7,316**	**9,489**
Total liabilities		**13,582**	**16,887**
Total shareholders' equity, minority interest and liabilities		**64,420**	**65,048**
Commitments and contingencies	30 and 31	-	-

The accompanying notes are an integral part of these consolidated financial statements.

	Notes	2004	2003 (as restated, see Note 2)	2002 (as restated, see Note 2)
		Year ended December 31,		
Revenue				
Local operators		22,648	15,792	12,722
Subscribers		8,740	9,319	9,171
Foreign operators		4,560	4,483	5,100
Other		1,370	1,673	860
Total revenue	20	**37,318**	**31,267**	**27,853**
Operating expenses				
Wages, salaries, other benefits and payroll taxes		(5,109)	(3,946)	(3,476)
Depreciation	7	(7,498)	(8,252)	(9,089)
Charges by network operators – international		(6,484)	(5,913)	(5,779)
Charges by network operators – national		(8,178)	(4,331)	(1,707)
Administration and other costs	22	(3,058)	(3,782)	(3,336)
Taxes other than on income		(587)	(507)	(793)
Repairs and maintenance		(813)	(800)	(452)
Bad debt expense	12	(369)	(337)	(874)
Loss on sale of property, plant and equipment		(217)	(1,214)	(449)
Total operating expenses		**(32,313)**	**(29,082)**	**(25,955)**
Operating profit		**5,005**	**2,185**	**1,898**
Gain from associates (before tax)	9	118	207	314
Interest expense		(13)	(202)	(348)
Interest income		478	402	310
Income from sale of investments		-	25	1,724
Other non-operating income, net	24	115	1,219	300
Foreign exchange gain /(loss), net		102	72	(933)
Monetary gain		-	-	610
Income before tax and minority interest		**5,805**	**3,908**	**3,875**
Current tax charge	25	(2,892)	(2,002)	(2,363)
Deferred tax benefit	25	1,528	1,763	1,511
Share in income taxes of associates	9, 25	(143)	(92)	(115)
Income tax expense		**(1,507)**	**(331)**	**(967)**
Income after taxation		**4,298**	**3,577**	**2,908**
Minority interest	16	-	(70)	82
Net income from continuing operations		**4,298**	**3,507**	**2,990**
Net loss from discontinued operations, net of tax, including write-down of property, plant and equipment of 419 and nil for 2003 and 2002, respectively	23	-	(3,109)	(2,251)
Net income		**4,298**	**398**	**739**
		Rubles	**Rubles**	**Rubles**
Earnings per share – basic and diluted	27	**4.42**	**0.41**	**0.76**
Earnings per share – continuing operations	27	**4.42**	**3.61**	**3.08**
Loss per share – discontinued operations	27	**-**	**(3.20)**	**(2.32)**

The accompanying notes are an integral part of these consolidated financial statements.

OAO Rostelecom
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of Russian Rubles, refer to Note 5)

		Year ended December 31,		
	Note	**2004**	**2003 (as restated, see Note 2)**	**2002 (as restated, see Note 2)**
Cash flows from operating activities				
Net income before tax, minority interest and discontinued operations		5,805	3,908	3,875
Adjustments to reconcile net income before tax, minority interest and discontinued operations to cash generated from operating activities:				
Net loss from discontinued operations before tax and minority interest	23	-	(2,116)	(508)
Depreciation	7	7,498	8,276	9,106
Bad debt expense	12	369	339	863
Gain from associates, before tax	9	(118)	(295)	(393)
Loss on sale of property, plant and equipment		217	1,214	449
Loss /(income) from sale of investments		-	98	(1,840)
Net interest and other non-operating income		(580)	(491)	(117)
Loss from discontinued operations		-	804	-
Write-down of property, plant and equipment		-	551	-
Other non-monetary expense / (income)		4	(42)	(77)
Foreign exchange (gain) /loss, net		(102)	(13)	983
Monetary gain		-	-	(281)
Changes in net working capital:				
Decrease / (increase) in accounts receivable		4,581	(2,540)	733
Increase in lease receivables		-	(3,685)	(3,408)
(Increase)/ decrease in inventories		(81)	(46)	187
(Decrease) /increase in payables and accruals		(7,132)	(1,335)	594
Cash generated from operations		**10,461**	**4,627**	**10,166**
Interest paid		(94)	(956)	(1,270)
Interest received		202	577	375
Income tax paid		(2,815)	(2,173)	(3,558)
Net cash provided by operating activities		**7,754**	**2,075**	**5,713**
Cash flows from investing activities				
Purchase of property, plant and equipment		(4,502)	(3,328)	(2,281)
Proceeds from sale of property, plant and equipment		289	21	23
Purchase of subsidiaries, net of cash acquired		-	(642)	(1,138)
Purchase of available-for-sale investments (securities), net		(13,550)	(8,415)	(2,198)
Proceeds from sale of available-for-sale investments, net of direct costs		12,279	9,140	1,970
Advances to investee and other companies issued		-	-	(1,020)
Advances to investee and other companies received		-	-	1,046
Dividends received from associates		74	13	97
Repayment of lease obligations	23	(520)	(3,520)	-
Cash (disposed of) / received on discontinuance of segments, net of cash disposed of		(123)	91	-
Net cash used in investing activities		**(6,053)**	**(6,640)**	**(3,501)**
Cash flows from financing activities				
Proceeds from issuance of bonds		-	-	1,532
Redemption of bonds		-	-	(1,021)
Drawdown of interest bearing loans		343	9,939	5,879
Repayment of interest bearing loans		(1,951)	(6,471)	(6,165)
Proceeds from issuance of promissory notes		-	2,208	1,344
Redemption of promissory notes		-	(1,455)	(1,347)
Dividends paid		(1,359)	(706)	(363)
Dividends paid to minority shareholders of a subsidiary		-	(29)	(294)
Proceeds from sale of additional ordinary shares by a subsidiary		-	-	24
Net cash (used in) / provided by financing activities		**(2,967)**	**3,486**	**(411)**
Effect of exchange rate changes on cash and cash equivalents		**(8)**	**(34)**	**36**
Net (decrease) /increase in cash and cash equivalents		**(1,274)**	**(1,113)**	**1,837**
Monetary effects on cash		**-**	**-**	**(417)**
Cash and cash equivalents at beginning of year		**2,529**	**3,642**	**2,222**
Cash and cash equivalents at the end of year		**1,255**	**2,529**	**3,642**
Non-monetary transactions:				
Non-cash additions to property, plant and equipment	24	-	316	103
Financial instruments received in connection with disposition of property, plant and equipment		-	-	545

The accompanying notes are an integral part of these consolidated financial statements.

	Note	Share capital	Retained earnings	Total
Balance at December 31, 2001, as previously reported		**100**	**48,654**	**48,754**
Restatement of revenues and expenses from local operators (see Note 2)		-	(638)	(638)
Change in method of accounting for certain post-employee benefits (see Note 2)		-	(178)	(178)
Balance at December 31, 2001, as restated		**100**	**47,838**	**47,938**
Dividends		-	(399)	(399)
Net income for the year (as restated, see Note 2)		-	739	739
Balance at December 31, 2002, as restated		**100**	**48, 178**	**48,278**
Dividends	15	-	(706)	(706)
Net income for the year (as restated, see Note 2)		-	398	398
Balance at December 31, 2003, as restated		**100**	**47,870**	**47,970**
Dividends	15	-	(1,430)	(1,430)
Net income for the year		-	4,298	4,298
Balance at December 31, 2004		**100**	**50,738**	**50,838**

The accompanying notes are an integral part of these consolidated financial statements.

1. REPORTING ENTITY

The accompanying consolidated financial statements are presented by OAO "Rostelecom" ("Rostelecom" or the "Company"), and its subsidiaries (together the "Group"), which are incorporated in the Russian Federation ("Russia"). The principal activity of the Group is the provision of intercity and international telecommunications services to the Government, businesses and people of Russia. The Group operates the main intercity network and the international telecommunications gateways of the Russian Federation, carrying traffic that originates in other national and international operators networks to other national and international operators for termination.

The Company's headquarters are located in Moscow at 1st Tverskaya-Yamskaya Street, 14.

The accompanying consolidated financial statements incorporate the results of operations of the Company and its subsidiaries, as detailed in Note 8.

Rostelecom was established as an open joint stock company on September 23, 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia No. 1507-r, dated August 27, 1993. As of December 31, 2004, the Government of the Russian Federation controlled indirectly 50.67% of the voting share capital of the Company, by virtue of its 75% less one share direct holding in OAO Svyazinvest ("Svyazinvest"), the parent company of Rostelecom.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

In 2004, the Group reviewed the bases on which certain revenues from local operators and related expenses were recognized and determined that not all conditions necessary for revenue and related expenses to be recognized had been met. As a result, management considered it appropriate to correct revenues and expenses and respective accounts receivable and payable as of December 31, 2003 and the two years then ended as follows:

	Year ended December 31, 2003	Year ended December 31, 2002
Decrease in revenue from local operators	(623)	(36)
Decrease in charges by network operators – national	449	-
Decrease in operating profit	**(174)**	**(36)**
Increase in monetary gain	-	116
(Decrease) /increase in income before tax and minority interest	**(174)**	**80**
Decrease / (increase) in income tax expense	42	(19)
(Decrease) /increase in net income from continuing operations and net income	**(132)**	**61**

	December 31, 2003
Decrease in current assets	(1,210)
Decrease in total assets	(1,210)
Decrease in current liabilities	(276)
Decrease in total liabilities	(501)
Decrease in total shareholders' equity	(709)
Effect on periods prior to 2003:	
Decrease in total shareholders' equity as of December 31, 2002	(577)
Decrease in total shareholders' equity as of December 31, 2001	(638)

In addition, during 2004, the Group retrospectively changed its method of accounting for certain post-employment benefits. Previously, the Group accounted for them as termination benefits. They are now accounted for as a defined benefit plan and the estimated benefits are determined using an actuarial method. In connection with this change, the Company recorded a liability as of December 31, 2001 of 178 and a corresponding reduction of retained earnings.

In December 2003 the IASB published revised International Accounting Standard No. 33 (IAS No.33), "Earnings per share". IAS No. 33, as revised, requires the application of the "two-class method" to determine earnings applicable to ordinary shareholders, the amount of which is used as a nominator to calculate earnings per ordinary share. The application of the "two-class method" requires that the profit or loss after deducting preferred dividends is allocated to ordinary shares and other participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature. The Group has early adopted provisions of IAS No. 33 and applied them to the financial statements for the year ended December 31, 2004, and retrospectively restated the amounts reported earlier for 2003 and 2002.

The reconciliation of earnings per share, as restated, and earnings per share previously reported for the years ended December 31, 2003 and 2002 is as follows:

	2003	**2002**
Total earnings per share – continuing operations, as previously reported	4.57	3.70
Restatement of revenues and expenses from local operators	(0.18)	0.08
Application of the 'two-class' method	(0.78)	(0.70)
Total earnings per share – continuing operations, as restated	**3.61**	**3.08**

	2003	**2002**
Total losses per share – discontinued operations, as previously reported	(4.27)	(3.09)
Application of the 'two-class' method	1.07	0.77
Total losses per share - discontinued operations, as restated	**(3.20)**	**(2.32)**

	2003	**2002**
Total earnings per share, as previously reported	0.30	0.61
Restatement of revenues and expenses from local operators	(0.18)	0.08
Application of the 'two-class' method	0.29	0.07
Total earnings per share, as restated	**0.41**	**0.76**

3. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board.

The Group maintains its accounting records and prepares its statutory accounting reports in accordance with Russian accounting legislation and instructions in Russian Rubles (Rbl). The accompanying consolidated financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with the standards and interpretations prescribed by the International Accounting Standards Board.

The consolidated financial statements have been prepared using the historical cost convention, restated for the effects of inflation and modified by the initial valuation of property, plant and equipment as further disclosed in Note 6 to the accompanying consolidated financial statements. The functional currency of the Group and the reporting currency for the accompanying consolidated financial statements is the Russian Ruble.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the recoverability and depreciable lives of property, plant and equipment, allowance for doubtful accounts, and deferred taxation. Actual results could differ from these estimates.

4. OPERATING ENVIRONMENT OF THE GROUP

General

The Russian economy while deemed to be of market status continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The stability of the Russian economy will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets, and the ability of the Group to maintain or pay its debts as they mature. The accompanying consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Group's consolidated financial statements in the period when they become known and can be reasonably estimated.

Currency exchange and control

Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Russia. Following the 1998 economic crisis, the Ruble's value fell significantly against the US Dollar, falling from a pre-crisis rate of approximately 6 Rubles to 1 US Dollar, to 27 Rubles to 1 US Dollar by the end of 1999. During 2000 - 2004, the Ruble's value fluctuated between 26.9 and 31.8 to 1 US Dollar. As of June 22, 2005, the exchange rate was 28.55 Rubles to 1 US Dollar.

The following table summarizes the exchange rate of the Ruble to 1 US Dollar as of December 31, 2004, 2003 and 2002.

As of December 31,	Exchange Rate
2004	27.75
2003	29.45
2002	31.78

Source: Central Bank of Russia

The Central Bank of Russia has established strict currency control regulations designed to promote the commercial utilization of the Ruble. Such regulations place restrictions on the conversion of Rubles into foreign currencies and establish requirements for partial conversion of foreign currency sales to Rubles.

Inflation

The Russian economy has been characterized by relatively high rates of inflation. The following table summarizes the annual rate of inflation for the past three years:

For the year ended December 31,	Annual inflation
2004	11.7%
2003	12.0%
2002	15.1%

Source: Federal Service of Public Statistics

The Group's principal inflation rate risk relates to the Group's ability to recover the investments in non-monetary assets, specifically property, plant and equipment, as well as to raise tariffs for services in line with the growth of operating expenses caused by inflation. In the event high levels of inflation continue, the Group could have financial difficulties accompanied by deterioration in its results of operations and liquidity position.

Taxation

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), turnover based taxes, and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies. Therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems. In recent years, the Russian government has initiated revisions of the Russian tax system. Effective January 1, 1999, the first part of the Tax Code was enacted. Effective January 1, 2001, the second part of the Tax Code was enacted. The new tax system is generally intended to reduce the number of taxes and, thus, the overall tax burden on businesses, and to simplify the tax laws.

Refer to Note 31 for description of possible tax contingencies.

5. ACCOUNTING FOR THE EFFECTS OF INFLATION

Prior to December 31, 2002, the Russian Federation met the definition of a hyperinflationary economy as defined by International Accounting Standard ("IAS") No. 29, "Financial Reporting in Hyperinflationary Economies".

IAS No. 29 requires that financial statements prepared on a historical cost basis be adjusted to take into account the effects of inflation, for entities reporting in hyperinflationary economies. The Group has utilized the general price index reported by the Federal Service of Public Statistics in the application of IAS No. 29.

Effective January 1, 2003, the economy of the Russian Federation ceased to meet the criteria of hyperinflationary economy. Accordingly, beginning January 1, 2003, the Company ceased to apply IAS No. 29 on a prospective basis.

As a result of this change, the carrying amounts of non-monetary assets expressed in the Russian Rubles current at December 31, 2002 formed the carrying basis for the respective assets at January 1, 2003.

Transactions undertaken subsequent to December 31, 2002 are reported at actual, nominal amounts except for those involving non-monetary assets and liabilities acquired and incurred prior to January 1, 2003. Results of operations (including gains and losses on disposal) involving such assets and liabilities are recognized based on the restated cost, which was calculated by applying to the carrying values of these assets and liabilities the change in the general price index through December 31, 2002.

Items included in the consolidated statements of income and cash flows for the year ended December 31, 2002 have been restated by applying the change in the general price index from the dates when the items were initially recorded through December 31, 2002.

6. PRINCIPAL ACCOUNTING POLICIES

Set out below are the principal accounting policies used to prepare the accompanying consolidated financial statements:

Principles of consolidation

The Group comprises the Company, its subsidiaries and associates. A subsidiary is an entity that is controlled by the Company, either through ownership, directly or indirectly, of more than 50% of the voting share capital of the entity, or by other means. Transactions and balances between the Company and its subsidiaries are eliminated. The accounting policies of the subsidiaries were adjusted to conform to those of the Group. Companies where the Group owns more than 50% of the voting share capital but the minority shareholder enjoys substantive participation rights and has effective veto rights that would prevent the Group from taking decisions that are significant in the ordinary course of business, i.e. the Group is unable to exercise control, are accounted for under the equity method.

Associates in which the Group has significant influence but not a controlling interest are accounted for using the equity method of accounting. Significant influence is usually demonstrated by the Group owning, directly or indirectly, between 20% and 50% of the voting ownership interest or by exerting significant influence through other means. The Group's share of the net income or losses of associates is included in the consolidated statement of income, and the Group's share of the net assets of associates is included in the consolidated balance sheet. An assessment of investments in associates for possible impairment or reversal of impairment recognized previously is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. When the

Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment to fund future losses. Unrealized profits that arise from transactions between the Group and its associates are eliminated in the proportion to the Group's share in such associates, and unrealized losses are excluded in the proportion to the Group's share in such associates, if there is no evidence of indicators of impairment of an asset transferred.

Goodwill and negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associate.

Goodwill arising from acquisitions prior to March 31, 2004 is amortised using the straight-line method over its estimated useful life. Goodwill relating to acquisitions from March 31, 2004 is not amortised but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying amount may be impaired. As at the acquisition date, any goodwill acquired in acquisitions from March 31, 2004 is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Negative goodwill arising from acquisitions prior to March 31, 2004 is presented in the same balance sheet classifications as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the statement of operations when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the statement of operations over the remaining weighted average useful life of depreciable and amortisable assets acquired; negative goodwill in excess of the fair values of those assets is recognised in the statement of operations immediately.

If negative goodwill arises on acquisitions after March 31, 2004 a reassessment of the identification and measurement of the acquiree's identifiable assets and liabilities and contingent liabilities and the measurement of the cost of the combination is made. Any excess of fair values over the cost of the business combination remaining after the reassessment is recognized in the statement of operations.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost of the network comprises all expenditures up to and including the cabling and wiring to the local telephone operator's intercity exchange, and includes contractors' charges and payments on account, materials, direct labour, and interest costs on specific project financing up to the date of commissioning of the relevant assets.

Subsequent expenditures are capitalized if it can be clearly demonstrated that they extend the life of the asset or significantly increase its revenue generating capacity beyond its originally assessed standard of performance. Expenditure for continuing repairs and maintenance are charged to the statement of income as incurred. Social assets are expensed on acquisition.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the determination of net income.

Depreciation is calculated on property, plant and equipment on a straight-line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Number of years
Buildings and site services	10 – 50
Cable and transmission devices:	
• Channels	10 – 40
• Cable	30 – 40
• Radio and fixed link transmission equipment	15 – 20
• Telephone exchanges	15
Other	5 – 10

The useful lives and depreciation methods are reviewed periodically to ensure that the methods and the periods of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

At each balance sheet date an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognized immediately as an expense in the statement of income. Any subsequent increase in the recoverable amount of the assets are reversed when the circumstances that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. Increase of the recoverable amount is limited to the lower of its recoverable amount and carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

The recoverable amount is determined as the higher of the assets' fair value less cost to sell, or value in use. The value in use of the asset is estimated based on forecast of future cash inflows and outflows to be derived from continued use of the asset and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate.

For the purpose of determining the opening balances on the first application of IFRS at 1 January 1994, the Company performed a valuation of the property, plant and equipment, as reliable historical cost information and information regarding acquisition dates was not available. These values were used as deemed cost. A brief description of the methodology applied in performing this valuation is set out below for each major asset category:

- Buildings and site services - current replacement cost;
- Cable and transmission devices - current replacement cost;
- Telephone exchanges - modern equivalent asset;
- Assets in course of construction - indexed historical cost.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction in progress is not depreciated until the constructed or installed asset is ready for its intended use.

Inventory

Inventory principally consists of fuel and spare parts for the network. Inventory is stated at the lower of cost incurred in bringing each item to its present location and its net realizable value. Cost is calculated on a first in first out basis. Items used in the construction of new plant and equipment are capitalized as part of the related asset. Inventory used in the maintenance of equipment is charged to operating costs as utilized and included in repair and maintenance and other costs in the accompanying consolidated statements of income.

Accounts receivable

Receivables are stated in the balance sheet at the fair value of the consideration given and are carried at amortized cost, after provision for impairment. Bad debts are written off in the period in which they are identified.

Provision for impairment is created based on the historical pattern of collections of accounts receivable and specific analysis of recoverability of significant accounts.

Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments (other than in consolidated subsidiaries and equity method investees), receivables, accounts payable and borrowings. The particular recognition methods adopted for financial instruments are disclosed in the individual policy statements associated with each item.

Financial assets are classified into the following categories: loans and receivables originated by the Group, held-to-maturity, trading and available-for-sale. Loans and receivables originated by the Group are financial assets created by providing money, goods or services directly to a debtor, unless they are originated with the intent to be sold immediately. Investments in debt instruments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Investments in debt and equity instruments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments are classified as available-for-sale.

The Group had no securities classified as held-to-maturity or trading at December 31, 2004 and 2003. Loans and receivables originated by the Group, including lease receivables are stated at amortized cost determined on an individual basis. Available-for-sale investments are stated at fair value determined on an individual investment basis. The Group has chosen to include unrealized gains and losses on the available-for-sale investments in the determination of net income. Income from available-for-sale investments is included in other non-operating income in the consolidated statement of income. Interest income from investments is accrued during the period in which it is earned.

The Company and the Group do not enter into hedging transactions.

Borrowings

Borrowings are initially recognised at cost, being the fair value of the consideration received, net of transaction costs incurred. In subsequent periods, borrowings are measured at amortised cost using the effective interest rate method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments with original maturities of three months or less, with insignificant risks of diminution in value.

Deferred income taxes

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Any such previously recognized reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset will be realized or the liability settled. Tax rates are based on laws that have been enacted or substantively enacted at the balance sheet date.

Revenue and operating costs recognition

Revenue and operating costs for all services supplied and received are recognized at the time the services are rendered. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be reliably measured. Revenues and expenses are reported net of respective value added tax.

The Company charges and pays to regional telephone operators and other telecommunication service providers in Russia either an agreed proportion of the amounts they bill to their subscribers or an agreed settlement rate based on traffic minutes (refer to Note 20). For outgoing telephone traffic originating in Moscow, subscribers are charged directly by the Company based on pre-set per minute tariffs.

The Company charges amounts to foreign network operators for incoming calls and other traffic that originate outside Russia. The Group is charged by foreign operators for completing international calls. These revenues and costs are shown gross in the accompanying consolidated financial statements.

Amounts payable to and receivable from the same operators are shown net in the balance sheet where a legal right of offset exists.

Employee benefits

Through December 31, 2003 the Company made certain payments to employees on retirement, or when they otherwise left the employment of the Company. These obligations, which were unfunded, represented obligations under a defined benefit pension scheme. For such plans, the pension accounting costs were assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of income so as to spread the regular cost over the average service lives of employees. Actuarial gains and losses were recognized in the statement of income immediately.

Where such post-employment employee benefits fell due more than 12 months after the balance sheet date, they were discounted using a discount rate determined by reference to market yields on Government bonds at the balance sheet date. This benefit plan was curtailed and settled on December 31, 2003.

The Company also participates in a defined contribution plan. Contributions made by the Company on defined contribution plans are charged to expenses when incurred. Effective January 1, 2004, maximum contribution is established at 100 Rubles per month per employee.

The Company also grants additional pensions to employees as an incentive to retire at statutory retirement age. Contributions are made to a separately administered fund. Based on a history of paying such postretirement benefits, the plan is accounted for as a defined benefit pension scheme.

The Company accrues for the employees' compensated absences (vacations) as the additional amount that the Company expects to pay as a result of the unused vacation that has accumulated at the balance sheet date.

Advertising costs

Advertising costs are charged to the statement of income as incurred.

Borrowing costs

Borrowing costs are expensed, except for those that would have been avoided if the expenditure to acquire the qualifying asset had not been made. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining the qualifying asset. Qualifying borrowing costs are capitalized with the relevant qualifying asset from the date the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred until the related asset is substantially ready for its intended use. Capitalized borrowing costs are subsequently charged to the statement of income in the period over which the asset is depreciated.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into Rubles at the exchange rate as of the transaction date. Foreign currency monetary assets and liabilities are translated into Rubles at the exchange rate as of the balance sheet date.

Exchange differences arising on the settlement of monetary items, or on reporting the Group's monetary items at rates different from those at which they were initially recorded in the period, or reported in previous financial statements, are recorded as foreign currency exchange gains or losses in the period in which they arise.

As at December 31, 2004 and 2003, the rates of exchange used for translating foreign currency balances were (in Russian Rubles for one unit of foreign currency):

	2004	**2003**
US Dollars	27.75	29.45
Japanese Yen	0.2675	0.2754
Special Drawing Rights (SDR)	42.98	43.60
EURO	37.81	36.82

Source: the Central Bank of Russia

Dividends

Dividends are recognized when the shareholder's right to receive the payment is established. Dividends in respect of the period covered by the financial statements that are proposed or declared after the balance sheet date but before approval of the financial statements are not recognized as a liability at the balance sheet date in accordance with IAS No. 10, “Events After the Balance Sheet Date”. The amount of dividends proposed or declared after the balance sheet date but before the financial statements were authorized for issue is disclosed in Note 15.

Minority interest

Minority interest includes that part of the net results of operations and of net assets of subsidiaries attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Company. Minority interest is carried at the minority's proportion of the pre-acquisition carrying amounts of the net identifiable assets and liabilities of the subsidiaries. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest, except to the extent that the minority has a binding obligation to, and is able to, make good for the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered. If a subsidiary or an associate has outstanding cumulative preferred shares which are held outside the Group, the Company computes its share of profit or losses after adjusting for the preferred dividends, whether or not the dividends have been declared.

As further discussed below, IFRS No.3, Business combinations, applicable for business combinations for which the agreement date is on or after March 31, 2004, requires the acquiree's identifiable assets, liabilities and contingent liabilities recognized as part of allocating the cost of the combination to be measured initially by the acquirer at their fair values at the acquisition date. Therefore, any minority interest in the acquiree is stated at the minority's proportion of the net fair values of those items.

Segment information

Operating segments are the primary segments of the Group. The Group identified the following operating segments:

- Telecommunications services
- Leasing services
- Banking and investing activities

Operating segments were identified based on the organizational structure of the Group and types of activities the Company and its subsidiaries are engaged in.

The accounting principles used to reflect transactions between reportable segments are the same as those used for transactions with external parties.

Effective December 1, 2003, the Company discontinued two of its components represented by the leasing and banking and investing business segments (refer to Notes 21 and 23).

Discontinued operations

In March 2004, the International Accounting Standards Board issued an International Financial Reporting Standard No. 5 (IFRS No. 5), "Non-current Assets Held for Sale and Discontinued Operations". IFRS No. 5 sets out requirements for the classification, measurement and presentation of non-current assets and disposal groups classified as held for sale and discontinued operations.

IFRS No. 5 requires assets or disposal groups that are expected to be sold and meet specific criteria to be measured at the lower of carrying amount and fair value less costs to sell. Such assets should not be depreciated and should be presented separately in the balance sheet.

In addition, IFRS No. 5 withdraws IAS No. 35 (IAS No. 35), “Discontinuing Operations”, and replaces it with requirement that operations forming a major line of business or area of geographical operations to be classified as discontinued when the assets in the operations are classified as held for sale or when the entity has disposed of the operation. IFRS No. 5 specifies that the results of discontinued operations are to be shown separately on the face of the income statement and requires an entity to re-represent respective amounts for prior periods presented in the financial statements so that this presentation relate to all operations that have been classified as discontinued by the latest balance sheet date.

IFRS No. 5 also requires certain disclosures in respect to assets and disposal groups classified as held for sale and discontinued operations.

Entities shall apply requirements of IFRS No. 5 for annual periods beginning on or after January 1, 2005, with earlier application encouraged.

The Group has early adopted provisions of IFRS No. 5 and applied them to the financial statements for the year ended December 31, 2003. In connection with early adoption of provisions of IFRS No. 5, the Group has early adopted certain amendments to existing current International Accounting and International Financial Reporting Standards, which are directly affected by the new requirements.

Reclassifications

Certain amounts reported in the prior period consolidated financial statements have been reclassified to conform with the current year presentation.

New accounting pronouncements

During 2003-2004, the IASB published several revised International Accounting Standards, issued several new International Financial Reporting Standards and gave notice of the withdrawal of one International Accounting Standard. Most of these revised and new standards will apply to accounting periods commencing on or after January 1, 2005. The new pronouncements are the following:

- IAS No. 1, “Presentation of Financial Statements”,
- IAS No. 2, “Inventories”,
- IAS No. 8, “Accounting Policies, Changes in Accounting Estimates and Errors”,
- IAS No. 10, “Events after the Balance Sheet Date”,
- IAS No. 16, “Property, Plant and Equipment”,
- IAS No. 17, “Leases”,
- IAS No. 19, “Employee Benefits”,
- IAS No. 21, “The Effects of Changes in Foreign Exchange Rates”,
- IAS No. 24, “Related Party Disclosures”,
- IAS No. 27, “Consolidated Financial Statements and Accounting for Investments in Subsidiaries”,
- IAS No. 28, “Investments in Associates”,
- IAS No. 31, ”Interests in Joint Ventures”,
- IAS No. 32, “Financial Instruments: Disclosure and Presentation (revised 2003)”,
- IAS No. 33, “Earnings per Share”,
- IAS No. 39, “Financial Instruments: Recognition and Measurement”,
- IAS No. 40, “Investment Property”,
- IFRS No.2, “Share-based Payment”,
- IFRS No.3 “Business Combinations”,
- IFRS No.4 “Insurance Contracts”.

The withdrawn standard was IAS No. 15, “Information Reflecting the Effects of Changing Prices.”

The revised standards also superseded SIC 1 "Consistency—Different Cost Formulas for Inventories," SIC 2 "Consistency—Capitalization of Borrowing Costs," SIC 3 "Elimination of Unrealised Profits and Losses on Transactions with Associates," SIC 5 "Classification of Financial Instruments—Contingent Settlement Provisions," SIC 6 "Costs of Modifying Existing Software," SIC 11 "Foreign Exchange—Capitalisation of Losses Resulting from Severe Currency Devaluations," SIC 14 "Property, Plant and Equipment—Compensation for the Impairment or Loss of Items," SIC 16 "Share Capital—Reacquired Own Equity Instruments (Treasury Shares)," SIC 17 "Equity—Costs of an Equity Transaction," SIC 18 "Consistency—Alternative Methods," SIC 19 "Reporting Currency—Measurement and Presentation of Financial Statements under IAS 21 and IAS 29," SIC 20 "Equity Accounting Method—Recognition of Losses," SIC 23 "Property, Plant and Equipment—Major Inspection or Overhaul Costs," SIC 24 "Earnings Per Share—Financial Instruments that May Be Settled in Shares," SIC 30 "Reporting Currency—Translation from Measurement Currency to Presentation Currency," and SIC 33 "Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interest".

Except for the matters discussed below, the adoption of these revised or new standards is not expected to have a material impact on the Group's results of operations, financial position and cash flows.

IAS No. 16, as revised, would require annual revision of residual value, useful life and depreciation method applied to an asset. The Group has significant amount of fully depreciated assets. The Group will reconsider useful life of property, plant and equipment when applying the revised standard. The Group is currently in process of assessing the potential impact this standard may have on useful lives adopted by the Group, and accordingly, the Group's results of operations. Any changes in residual value, useful life and depreciation method applied to an asset will be accounted for as a change in accounting estimate in accordance with IAS No. 8.

On December 16, 2004, an amendment to IAS 19 "Employee Benefits" was issued. Previously, IAS 19 required actuarial gains and losses to be recognized in profit or loss, either in the period in which they occur or spread over the service lives of the employees. Under the amendment, entities that at present spread the gains and losses are not required to change their approach, but are now free to choose to do so and recognize actuarial gains and losses in full in the period in which they occur, outside profit or loss. The amendment also (a) specifies how group entities should account for defined benefit group plans in their separate or individual financial statements and (b) requires additional disclosures. The amended standard will be effective for annual periods beginning on or after January 1, 2006. The Group is currently evaluating the impact of this amendment on its results of operations, financial position and cash flows and is in process of developing an implementation strategy.

On May 27, 2004, IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities" was published. IFRIC 1 contains guidance on accounting for changes in decommissioning, restoration and similar liabilities that have previously been recognized both as part of the cost of an item of property, plant and equipment under IAS 16 and as a provision under IAS 37. The interpretation addresses subsequent changes to the amount of the provision that may arise from (a) a revision in the timing or amount of the estimated decommissioning or restoration costs or from (b) a change in the current market-based discount rate. IFRIC 1 is effective for annual periods beginning on or after September 1, 2004. The Group is currently evaluating the impact of this interpretation on its results of operations, financial position and cash flows and is in process of developing an implementation strategy.

On November 11, 2004, an amendment to SIC-12 "Consolidation—Special Purpose Entities" was published. The amendment removes the scope exclusion in SIC-12 for equity compensation plans. The amendment also amends the scope exclusion in SIC-12 for post-employment benefit plans to include other long-term employee benefit plans, to ensure consistency with the requirements of IAS 19. The amendment is effective for annual periods beginning on or after January 1, 2005. The Group is currently evaluating the impact of new standard on its results of operations, financial position and cash flows and is in process of developing an implementation strategy.

On November 25, 2004, IFRIC 2 "Members' Shares in Co-operative Entities and Similar Instruments" was released, giving guidance on the classification of members' shares in co-operative entities either as financial liabilities or as equity. On December 2, 2004, IFRIC 3 "Emission Rights" and IFRIC 4 "Determining whether an Arrangement contains a Lease" were released. IFRIC 3 specifies the accounting for companies participating in government schemes aimed at reducing greenhouse gas emissions. IFRIC 4 gives guidance on determining whether arrangements that do not take the legal form of a lease should, nonetheless, be accounted for in accordance with IAS 17 "Leases." On December 16, 2004, IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds" was issued. IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning plant or equipment or in undertaking environmental restoration or rehabilitation. IFRIC 2, IFRIC 3 and IFRICs 4 and 5 are effective for annual periods beginning on or after January 1, 2005, March 1, 2005 and January 1, 2006, respectively, with earlier adoption encouraged. The Group is currently evaluating the impact of these new interpretations on its results of operations, financial position and cash flows and is in process of developing an implementation strategy.

7. PROPERTY, PLANT AND EQUIPMENT, NET

The net book value of property, plant and equipment as of December 31, 2004 and 2003 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost					
At January 1, 2004	23,386	122,290	23,266	5,345	174,287
Additions	-	-	-	4,773	4,773
Disposals	(950)	(2,068)	(958)	(14)	(3,990)
Disposal of subsidiaries	-	(241)	(131)	(121)	(493)
Transfer	71	3,306	2,293	(5,670)	-
At December 31, 2004	22,507	123,287	24,470	4,313	174,577
Accumulated Depreciation					
At January 1, 2004	(15,471)	(92,756)	(16,475)	-	(124,702)
Depreciation expense	(544)	(4,901)	(2,053)	-	(7,498)
Disposals	773	1,957	754	-	3,484
Disposal of subsidiaries	-	66	60	-	126
At December 31, 2004	(15,242)	(95,634)	(17,714)	-	(128,590)
Net book value at December 31, 2004	**7,265**	**27,653**	**6,756**	**4,313**	**45,987**

	Buildings and site services	**Cable and transmission devices**	**Other**	**Construction in progress**	**Total**
Cost					
At January 1, 2003	24,012	127,811	23,635	3,872	179,330
Additions	-	-	-	3,579	3,579
Additions with acquired subsidiaries	580	-	-	-	580
Disposals	(1,294)	(5,646)	(784)	(56)	(7,780)
Disposal of subsidiaries and write-down of property, plant and equipment	(580)	(551)	(291)	-	(1,422)
Transfer	668	676	706	(2,050)	-
At December 31, 2003	23,386	122,290	23,266	5,345	174,287
Accumulated Depreciation					
At January 1, 2003	(15,823)	(92,369)	(14,860)	-	(123,052)
Depreciation –continuing operations	(546)	(5,353)	(2,353)	-	(8,252)
Depreciation –discontinued operations	-	-	(24)	-	(24)
Disposals	898	4,966	659	-	6,523
Disposal of subsidiaries	-	-	103	-	103
At December 31, 2003	(15,471)	(92,756)	(16,475)	-	(124,702)
Net book value at December 31, 2003	**7,915**	**29,534**	**6,791**	**5,345**	**49,585**

During 2002, the Company formalized a plan to discontinue using satellite channels beginning from February 2003. The Company has accordingly revised its estimate of the remaining period of use of the satellite channels. Depreciation expense of 210 was recognized in the consolidated statement of income for the year ended December 31, 2003 (2002: 897), net book value of these assets amounted to nil as of December 31, 2004 and 2003. Amounts receivable from the lessor net of allowance for doubtful accounts receivable of 253, amounting to nil (2003:525) are included in other accounts receivable as of December 31, 2004 and 2003, respectively.

Included in the roll-forward of fixed assets movements for the year ended December 31, 2003 in the line "Disposal of subsidiaries and write-down of property, plant and equipment" is the amount of (551) representing partial impairment of property, plant and equipment as a result of discontinuing the leasing, and banking and investing segments (refer to Note 23).

Interest amounting to 161, 123 and 57 was capitalized in property, plant and equipment for the years ended December 31, 2004, 2003 and 2002. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 6.1%, 6.3% and 6.9%, respectively.

Property, plant and equipment with a carrying value of 2,066 and 2,158 was pledged in relation to loan agreements entered into by the Group as of December 31, 2004 and 2003, respectively (refer to Note 18).

8. SUBSIDIARIES

As of December 31, 2004 and 2003 the Company owned 100% of the voting shares of ZAO Westelcom, a company registered in the Russian Federation. The main activity of Westelcom is provision of international traffic transition services.

9. INVESTMENTS IN ASSOCIATES

Movements in investments in associates during the years ended December 31, 2004 and 2003 were as follows:

	2004	2003
Beginning of year	2,381	2,635
Additions	110	-
Dividends received	(74)	(13)
Share in income before income taxes included in continuing operations	313	128
Share in income before income taxes included in discontinued operations	-	88
Share in income taxes included in continuing operations	(143)	(92)
Share in income taxes included in discontinued operations	-	3
Reclassification to long-term investments	(26)	-
Disposal of associates	-	(368)
Reclassification of investments in ZAO Telecom-center (refer to Notes 13 and 35)	(50)	-
End of year	**2,511**	**2,381**

Total gain from associates presented in the consolidated statements of income is composed of the following:

	2004	2003	2002
Share in income/ (loss) of associates included in movements in investments in associates	313	128	(68)
(Loss) /income from GlobalTel	(195)	79	-
Share in income of EDN Sovintel from 1 January 2002 through the date of disposal	-	-	382
Total gain from associates (before tax)	**118**	**207**	**314**

Total share in income taxes of associates presented in the consolidated statements of income is composed of the following:

	2004	2003	2002
Share in income taxes of associates included in movements in investments in associates	143	92	5
Share in income taxes of EDN Sovintel from 1 January 2002 through the date of disposal	-	-	110
Total share in income taxes of associates	**143**	**92**	**115**

Investments in associates as of December 31, 2004 and 2003 were as follows:

Associate	Main activity	Voting share capital, %	2004 Carrying amount	2003 Carrying amount
ZAO Telmos	Telecommunication services	20	197	177
OAO RTComm.RU	Internet services	31	156	-
Golden Telecom, Inc., USA (“Golden Telecom”)	Telecommunication services	11.08 (2003: 11.19)	2,067	2,066
ZAO Telecom – center (refer to Note 13)	Telecommunication services	45	-	46
OAO MMTS-9	Telecommunication services	49	60	47
GlobalTel	Satellite telecommunications	51	-	-
Other	Various		31	45
Total investments in associates			**2,511**	**2,381**

All associates except for specifically otherwise mentioned are registered in the Russian Federation.

The main activity of RTComm.RU is provision of Internet access services to enterprises and individuals. As of December 31, 2004 and 2003, Rostelecom and RTC-Leasing owned 31.09% and 49.76% of voting shares of RTComm.RU, respectively. As a result of losing control over RTComm.RU, it is now accounted for as an associate.

In September 2002, as a result of a sale of its 50% interest in EDN Sovintel to Golden Telecom, Inc. the Company acquired 4,024,067 ordinary shares of the latter (1,786 at average market quotes at the transaction date). Ordinary shares of Golden Telecom were valued at the average of NASDAQ closing quotes two days before and after the measurement date, which was determined to be September 5, 2002. Transaction costs amounted to 172. In connection with this sale, the Company recognized a gain of 1,733, which was included in income from sale of investments in the consolidated statement of income for the year ended December 31, 2002. In November 2002, two representatives of Rostelecom have been elected to the Board of Directors of Golden Telecom.

At the date of exchange, the Group’s management believed that the Group had the ability to exercise significant influence over the financial and operating policies of Golden Telecom through representation on its Board of Directors. Accordingly, investment into Golden Telecom was accounted for using the equity method in the accompanying consolidated financial statements.

The excess of purchase price paid for shares of Golden Telecom over the fair value of identifiable net assets acquired in amount of 762 was determined to be amortized over the period of 8 years. Amortization charge of 95, 95 and 32 reduced gain from associates (before tax) for the years ended December 31, 2004, 2003 and 2002, respectively. The unamortized part of 540 and 635 was included in carrying amount of investment in Golden Telecom as of December 31, 2004 and 2003, respectively.

During 2003 and 2004, as a result of a number of transactions initiated by the shareholders of Golden Telecom, the Company's share in the voting stock of Golden Telecom was diluted by 3.82%, from 14.9% as of December 31, 2002 to 11.08% as of December 31, 2004. The dilution of interest was accounted for as sale of interest in the associate. Loss of 15 and gain of 2 resulting from the dilution of interest were included in gain from associates in the accompanying consolidated statements of income for the years ended December 31, 2004 and 2003, respectively. Management performed the analysis of the changes in the shareholders' structure of Golden Telecom during 2003 and 2004, and concluded that Rostelecom continued to exercise significant influence over Golden Telecom. Subsequent to the year end, Golden Telecom declared and paid dividends for the first quarter of 2005 of which 22 relate to Rostelecom.

The Group owns 51% of the ordinary shares of GlobalTel, a Russian closed joint stock company. GlobalTel was created in 1996 to provide access to a US-based global mobile satellite telephone network. Since the time of its launch, the global satellite network has experienced technical problems and low subscriber interest, as the result of which GlobalTel has only recently developed its operations beyond the development stage. The US owner of the satellite network also owns the remaining 49% of GlobalTel. As of December 31, 2004 and 2003, the charter of GlobalTel, its by-laws and the way GlobalTel historically conducted its operations provide for substantive participation of both shareholders in the economic activities of GlobalTel. The minority shareholder had effective veto rights that would prevent the Group from causing GlobalTel to take an action that is significant in the ordinary course of its business. Because effective control of GlobalTel did not rest with the Group, management accounts for the investment in GlobalTel under the equity method. The Group did not recognize its share in losses of GlobalTel in 2004, 2003 and 2002 as the accumulated share in losses of GlobalTel exceeded the investment of the Group in GlobalTel. Loans and other accounts receivable from GlobalTel are fully provided for as loss from GlobalTel. Any receipts from GlobalTel in respect of these are recognized as gain from associates in the period they are received. In 2005, the charter of GlobalTel has been changed, as described in Note 35.

The carrying amount of investments in associates in the accompanying consolidated financial statements is equal to the Group's share of underlying equity in the net assets of investee companies, including goodwill, if any. All associates have a December 31 year-end.

Accounting policies of associates may not comply with accounting policies used by the Group in preparation of the accompanying consolidated financial statements. In the opinion of management, differences in accounting policies of associates do not materially affect the identification of the Group's share in income (loss) of associates.

In August 2004 the Board of Directors of Rostelecom approved sale of investments in ZAO Telecom-center. Accordingly, these investments were reclassified from long-term to short-term investments as of December 31, 2004 (refer to Note 13). The sale took place in March 2005 (refer to Note 35).

In 2005 the Group sold its investments in ZAO Telmos (refer to Note 35).

10. LONG-TERM FINANCIAL INVESTMENTS

Long-term financial investments are Ruble denominated and as of December 31, 2004 and 2003 comprised the following:

	2004	2003
Notes receivable	94	29
Other long-term financial investments	170	97
Total long-term financial investments	**264**	**126**

As of December 31, 2004 and 2003 other long-term financial investments include investment in OAO Sberbank of Russia of 107 and 60, respectively, which are stated at fair value.

11. GOODWILL

Goodwill was recognized in connection with acquisition of Westelcom in 2002 and represents the excess of the purchase price paid over fair value of identifiable net assets acquired.

Changes in amounts of goodwill during the years ended December 31, 2004 and 2003 were as follows:

	Goodwill	Negative goodwill, short-term portion	Negative goodwill, long-term portion
Balance as of December 31, 2002	**39**	**(471)**	**(240)**
Additions due to acquisition of subsidiaries	157	-	-
Additions due to purchase of minority interest	4	-	-
Reclassification of negative goodwill	-	(51)	51
Amortization of negative goodwill due to disposal of investments	-	455	-
Amortization	(14)	51	-
Disposal of subsidiaries (refer to Note 23)	(169)	16	189
Balance as of December 31, 2003	**17**	-	-
Amortization	(8)	-	-
Balance as of December 31, 2004	**9**	-	-

12. ACCOUNTS RECEIVABLE, NET

Accounts receivable as of December 31, 2004 and 2003 comprised the following:

	2004	**2003, as restated (see Note 2)**
Trade accounts receivable	5,303	6,474
Less: allowance for doubtful trade accounts receivable	(1,774)	(2,406)
Trade accounts receivable, net	3,529	4,068
Prepayments	396	425
Prepaid taxes	1,503	1,940
Other accounts receivable	695	931
Less: allowance for doubtful other accounts receivable	(510)	(283)
Other accounts receivable, net	2,084	3,013
Total accounts receivable, net	**5,613**	**7,081**

Trade accounts receivable, net of allowances for doubtful accounts, include amounts totaling 450 (2003: 761) due from foreign telecommunications operators which are denominated in foreign currencies, principally represented by Special Drawing Rights ("SDR") and US dollars, and amounts totaling 1,511 (2003: 1,739) due from local telephone operators. As of December 31, 2004 and 2003, the carrying value of trade accounts receivable approximated their fair value.

The following table summarizes the changes in the allowance for doubtful accounts receivable for the years ended December 31, 2004, 2003 and 2002:

	2004	**2003**	**2002**
Balance, beginning of year	2,689	2,443	1,825
Impact of inflation on opening balance	-	-	(240)
Provision for doubtful accounts receivable – continuing operations	369	337	874
Provision for doubtful accounts receivable – discontinued operations	-	2	(11)
Accounts receivable written-off	(774)	(93)	(5)
Balance, end of year	**2,284**	**2,689**	**2,443**

13. SHORT-TERM INVESTMENTS

Short-term investments include investments available-for-sale, which are stated at fair value, and short-term deposits and deposit certificates which are stated at amortized cost using the effective interest rate method. Short-term investments comprised the following as of December 31, 2004 and 2003:

	2004	**2003**
VEB bonds (USD denominated)	195	199
Liquid bills of exchange	5,247	1,855
Short-term deposits and deposit certificates	2,658	700
Investments in ZAO Telecom-center (refer to Note 9)	50	-
Other	-	1
Total short-term investments	**8,150**	**2,755**

Fair value of investments, which are traded on active markets, is based on the market quotes for such investments. Fair value of investments, which are not traded on active market, is based on estimated discounted future cash flows. The discount rate is identified individually for each company and is based on the weighted average cost of capital.

Transactions with financial instruments are recognized using settlement date accounting. Assets are recognized on the day they are transferred to the Group and derecognized on the day that they are transferred by the Group.

Vnesheconombank (VEB) bonds are bearer securities guaranteed by the Ministry of Finance of Russia, and are commonly referred to as "MinFin Bonds". The bonds carry an annual coupon interest rate of 3%. The maturity dates of bonds are within 2007 – 2008 . Vnesheconombank bonds are stated at market value based on quotations obtained from the over the counter market.

The Group invests temporarily available funds in bills of exchange issued by various Russian companies maturing within 12 months after the balance sheet date or with no fixed maturity, which the Group plans to sell during the next year. The bills of exchange bear interest in the range from 5.65% to 14.3% and are denominated in Rubles, as well as in foreign currencies. As of December 31, 2004 approximately 40% (2003: 26%) of the Group's total liquid bills of exchange are denominated in foreign currencies, represented by US dollars. The Group uses bills of exchange as a financial instrument primarily for the purpose of receiving financial income.

Liquid bills of exchange include promissory notes issued by RTC-Leasing of 2,098 (2003: 459), of which 803 are secured with proceeds from lease agreements, promissory notes issued by OAO Svyazbank (subsidiary of RTC-Leasing) of 590 (2003: 7) and promissory notes issued by Russian Industrial Bank (subsidiary of RTC-Leasing) of 795 (2003: nil). Short-term deposits include deposits in OAO Svyazbank of 900 (2003: nil), deposits in Russian Industrial Bank of 242 (2003: nil), and deposits in ZAO Severozapandny Telecombank (subsidiary of RTC-Leasing) of 250 (2003: nil). Refer to Note 14 for cash held in these banks. Management of the Company is constantly monitoring financial position and performance of RTC-Leasing group and believes that amounts invested in promissory notes, cash and short-term deposits are fully recoverable.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2004 and 2003 included cash on hand and at bank accounts as follows:

	2004	**2003**
Cash on hand	1	2
Cash at bank – Rubles	379	1,736
Cash at bank – Foreign currencies	53	236
Short term deposits – Rubles	752	405
Short-term deposits – Foreign currencies	66	147
Other	4	3
Total cash and cash equivalents	**1,255**	**2,529**

As of December 31, 2004, cash at bank in foreign currencies included amounts of 32 (2003: 105) held in escrow accounts on behalf of providers of loans to the Company.

Cash at bank denominated in Rubles include cash held in Russian Industrial bank of 7 (2003: 561) and cash held in OAO Svyazbank of 8 (2003: nil). Cash at bank denominated in foreign currencies include cash held in Russian Industrial Bank of 1 (2003: 37). Short-term deposits denominated in Rubles include cash held in Russian Industrial Bank of 300 (2003: 147).

15. SHAREHOLDERS' EQUITY

Share capital

The authorized share capital of the Company as of December 31, 2004 and 2003 comprised 1,634,026,541 ordinary shares and 242,832,000 non-redeemable preferred shares. The par value of both ordinary and preferred shares amounted to Rbl 0.0025 per share.

As of December 31, 2004 and 2003, the issued and outstanding share capital was as follows:

	Number of shares	Nominal value	Carrying amount
Ordinary Shares, Rbl 0.0025 par value	728,696,320	1.822	75
Preferred Shares, Rbl 0.0025 par value	242,831,469	0.607	25
Total	**971,527,789**	**2.429**	**100**

There were no transactions with own shares during 2004, 2003 and 2002.

The Board of Directors of Rostelecom is authorized under its Charter to issue additional ordinary shares up to the total of the authorized share capital without further approval of shareholders.

The nominal share capital of the Company recorded on its incorporation has been indexed, to account for the effects of inflation from that date through December 31, 2002. The share capital in the Russian statutory accounts at December 31, 2004 and 2003 amounted to 2,428,819 nominal Rubles.

Ordinary shares carry voting rights with no guarantee of dividends.

Preferred shares have priority over ordinary shares in the event of liquidation but carry no voting rights except on resolutions regarding liquidation or reorganization of the Company, changes to dividend levels of preferred shares, or the issuance of additional preferred stock. Such resolutions require two-thirds approval of preferred shareholders. The preferred shares have no rights of redemption or conversion.

Preferred shares carry dividends amounting to the higher of 10% of the net income after taxation of the Company as reported in the Russian statutory accounts divided by the number of preferred shares and the dividends paid on one ordinary share. If the holders of preferred shares receive dividends of less than 10% of the net income after taxation as reported in the Russian statutory accounts, no dividends to the holders of ordinary shares are declared. Owners of preferred shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay partly) dividends on preferred shares has been taken.

In a case of liquidation, the property remaining after settlement with creditors, payment of preferred dividends and redemption of the par value of preferred shares is distributed among preferred and ordinary shareholders proportionately to number of owned shares.

Accordingly, the Company's preferred shares are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 27).

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by statutory accounting rules. Statutory retained earnings of the Company as of December 31, 2004 and 2003 amounted to 20,670 and 14,452, respectively.

Treasury Shares

In accordance with the Company's Charter, Rostelecom is permitted to repurchase, on the open market, ordinary and preferred shares as long as 90% of the nominal value of its issued Charter Capital remains in circulation. Repurchased shares must either be sold or cancelled within one year of being purchased. There were no treasury shares as of December 31, 2004 and 2003.

Dividends

Dividends payable to holders of preferred and ordinary shares in respect of the years ending December 31, 2003 and 2002 were as follows:

	2003	2002
Dividend – preferred shares	790	310
Dividend – ordinary shares	640	396
	1,430	**706**
	Rbl	**Rbl**
Dividend per preferred share	3.25	1.27
Dividend per ordinary share	0.88	0.54

16. MINORITY INTEREST

	2004	2003	2002
At beginning of year	191	2,825	1,929
Minority interest in net assets of acquired subsidiaries	-	-	224
Minority interest in net income/ (loss) of subsidiaries – continuing operations	-	70	(82)
Minority interest in net income of subsidiaries – discontinued operations (refer to Note 23)	-	650	1,153
Minority effect of preferred shares issued by subsidiary	-	-	-
Dividends paid to minority shareholders of subsidiaries	-	(29)	(129)
Purchase of minority interest	-	(3)	(79)
Re-purchase of own preferred shares by a subsidiary	-	-	(191)
Minority interest in disposed subsidiaries (refer to Note 23)	-	(3,322)	-
Minority interest in disposed subsidiary (RTComm.RU) (refer to Note 9)	(191)	-	-
At the end of year	**-**	**191**	**2,825**

17. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of December 31, 2004 and 2003:

	2004	2003, as restated (see Note 2)
Trade accounts payable	2,932	3,122
Accrued expenses	325	156
Compensation related accruals	628	361
Dividends payable	120	49
Total accounts payable and accrued expenses	**4,005**	**3,688**

As of December 31, 2004, trade accounts payable included amounts totaling 1,404, which are denominated in foreign currencies, principally represented by Special Drawing Rights and US Dollars (2003: 1,326).

As of December 31, 2004, trade accounts payable include promissory notes issued to IBM Corporation according to agreement on implementation of a new billing system, estimated cost of which is USD 90 million. Total amortized cost of issued promissory notes equals to 1,059, of which 706 are included in accounts payable and accrued expenses and 353 are included in non-current accounts payable in the accompanying consolidated balance sheet as of December 31, 2004. The promissory notes bear interest of 6%.

Trade accounts payable as of December 31, 2003 included accounts payable to RTC-Leasing of 520, which were repaid in 2004 (refer to Note 23).

18. INTEREST BEARING LOANS

The interest bearing loans as of December 31, 2004 and 2003 were as follows:

Maturity	2004	2003
Current portion of interest bearing loans	1,107	1,932
Between one to two years	570	1,088
Between two to three years	109	518
Between three to four years	72	35
Between four to five years	26	-
Non-current portion of interest bearing loans	777	1,641
Total interest bearing loans	**1,884**	**3,573**

As of December 31, 2004 and 2003, interest bearing loans, which are mostly denominated in foreign currencies, were as follows:

	Note	2004	2003
US Dollars (US$)	(a)	1,457	2,639
Japanese Yen (JPY)	(b)	188	245
EURO	(c)	239	34
Foreign currency denominated loans		1,884	2,918
Russian Ruble denominated loans	(d)	-	655
Total interest bearing loans		**1,884**	**3,573**

As of December 31, 2004, the Group had the following loans outstanding:

a) This includes the following amounts:

- US$ 48.57 million (1,348) on promissory notes issued to Alfa-bank in 2003. In June 2003, according to the Government decision #221 dated April 16, 2003, Rostelecom's overdue debt (with a principal of 11,601 million Japanese Yen (2,976 at the exchange rate as of June 30, 2003) and accrued interest of 20) payable to Vnesheconombank, acting as an agent of the Ministry of Finance of Russian Federation, was restructured by converting it into promissory notes issued to Alfa-Bank. Upon conversion, the carrying amount of debt amounted to US$ 98.6 (2,991 at the exchange rate as of June 30, 2003). As a result of conversion, Rostelecom's principal debt to the Ministry of Finance and interest accrued thereon were extinguished in full. Upon extinguishment of debt to the Ministry of Finance, the Company ceased to be in technical default in respect of this debt. According to the Ministry of Finance's resolution dated September 16, 2003, fines and penalties of 2,837 million Japanese Yen (749 at the exchange rate as of date of transaction) due from Rostelecom were forgiven and written off. In connection with this transaction a gain of 752 was recognized and included in other non-operating income in the consolidated statement of income for the year ended December 31, 2003 (refer to Note 24). The promissory notes to Alfa-Bank are repayable within 36 months in six semi-annual installments, beginning from December 2003, and bear interest of 5.94% per annum. Promissory notes amounting to 925 were included in the current portion of interest bearing loans.

- US$ 2.66 million (74) within a credit agreement between Rostelecom and Japanese Bank for International Cooperation (JBIC) entered into in March 2004 to finance the purchase of equipment for the reconstruction of the Tyumen-Surgut microwave line. Maximum amount of the credit line is US$ 2.66 million, of which US$ 1.60 million (Tranche A) is provided by JBIC and US$ 1.06 million (Tranche B) is provided by Sumitomo Mitsui Banking Corporation, a Japanese commercial bank. Tranche A and Tranche B bear interest of 4.67% and LIBOR plus 0.55%, respectively. The loan is repayable in semi-annual installments up to October, 2008. 18 relates to the current portion.

- US$ 1.27 million (35) on a credit agreement between Rostelecom and Sumitomo Corporation entered into in March 1997. The loan is secured by the related equipment with carrying value of 1,210 and by cash balances deposited in designated escrow accounts, and is repayable in quarterly installments with the final payment due not later than July 2005. Interest is payable at LIBOR plus 3.2%. The purpose of the loan is financing of construction of fiber optic cable line Novosibirsk – Khabarovsk. The total amount is included in current portion.

b) This includes the following amounts:

- JPY 628.66 million (168) within a credit line provided by Vneshtorgbank with maximum amount of JPY 880.13 million open through February 25, 2005. The facility bears annual interest rate of 5.75%. To secure the debt, the Company pledged its telecommunication equipment with carrying value of 242. The final payment date on this credit line is to be not later than February 26, 2007. 67 relates to the current portion.

- JPY 74.99 million (20) within a credit line provided by Vneshtorgbank with maximum amount of JPY 105 million open through February 25, 2005. The facility bears annual interest rate of 5.75%. To secure the debt, the Company pledged its telecommunication equipment with carrying value of 43. The final payment date on this credit line is to be not later than February 26, 2007. 8 relates to the current portion.

c) This includes the following:

- EURO 6.33 million (239) on a credit agreement between Rostelecom and ING BHF-BANK entered into in April 2004. Total amount of the credit line is EURO 7 million, payable up to 2009 in equal semi-annual installments and bearing interest of EURIBOR plus 0.875% per annum. The loan was taken for the purchase of equipment to be used in re-construction of fiber optic cable line Novosibirsk – Khabarovsk. 53 relates to the current portion.

As of December 31, 2004 and 2003, the weighted average interest rates of loans were 6.1% and 6.3%, respectively. Under IAS 39, “Financial Instruments: Recognition and Measurement”, loans should be reflected in the financial statements at amortized cost, i.e. the amount at which they were measured at initial recognition less principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount. The carrying amount of interest bearing loans equals their amortized cost.

The Group does not utilize financial instruments to hedge against its exposure to fluctuations in interest and foreign exchange rates.

In April 2004 the Company settled 695 on a credit agreement, which as of December 31, 2003 was signed between Rostelecom and RTDC. During 2004, the loan has been assigned from RTDC to other parties. The amount paid to the final beneficiary equals to the present value of the loan as of the date of settlement. Therefore, no gain or loss was recognized in the consolidated statement of income for the year ended December 31, 2004.

There are no specific affirmative or negative covenants (including financial covenants) under the existing loan agreements. There were no loans in default as of December 31, 2004.

19. INCOME TAXES

The components of net deferred tax assets and liabilities at December 31, 2004 and 2003, and the respective movements during 2004, were as follows:

	December 31, 2003	Movement during the year	December 31, 2004
Tax effects of future tax deductible items:			
Accounts payable and accrued liabilities	187	(187)	-
Accounts receivable	369	105	474
Investment valuation difference	44	(10)	34
Other	3	6	9
Gross deferred tax asset	**603**	**(86)**	**517**
Property, plant and equipment, net	7,690	(1,487)	6,203
Accounts payable and accrued liabilities	-	268	268
Leasing arrangements	395	(395)	-
Gross deferred tax liability	**8,085**	**(1,614)**	**6,471**
Net deferred tax liability	**7,482**	**(1,528)**	**5,954**

Differences between IFRS and statutory taxation and reporting regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting and profits tax purposes. The tax effect of these temporary differences is recorded at the rate of 24% (investment valuation – at 6% - 15%).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred income tax assets and deferred income tax liabilities relate to the income taxes levied by the same fiscal authority on the same taxable entity.

Income taxes payable and receivable as of December 31, 2004 and 2003 were as follows:

	2004	2003
Income tax payable	-	(118)
Income tax receivable	238	433

Income taxes payable and receivable are included in taxes payable and other accounts receivable, respectively, in the accompanying consolidated balance sheets.

20. REVENUE

Revenue comprised the following for the years ending December 31, 2004, 2003 and 2002:

	2004	2003, as restated (see Note 2)	2002, as restated (see Note 2)
Revenue from local operators			
Telephone - international	6,160	5,171	5,025
Telephone - national	13, 411	8,669	5,859
Other income from local operators	3,077	1,952	1,838
	22,648	**15,792**	**12,722**
Revenue from subscribers			
Telephone - international	2,900	3,027	3,462
Telephone - national	3,886	3,678	3,513
Internet access	-	1,060	849
Rent of telecommunication channels to subscribers	1,352	853	712
Television and radio transmission	602	584	546
Cellular services	-	117	89
	8,740	**9,319**	**9,171**
Revenue from foreign operators			
Telephone	4,041	3,871	4,250
Telex, telegraph and other	327	431	622
Rent of telecommunication channels	192	181	228
	4,560	**4,483**	**5,100**
Other revenue	1,370	1,673	860
Total revenue	**37,318**	**31,267**	**27,853**

Effective August 1, 2003, the Anti-Monopoly Ministry abolished the use of the Integral Settlement Rate ("ISR") for settlements between Rostelecom and other domestic operators. Under the new settlements system, Rostelecom began to bill other operators originating domestic long-distance ("DLD") calls using the Linear Settlement Rate ("LSR") regulated by the Anti-Monopoly Ministry of the Russian Federation and to pay to other operators terminating the calls the termination fee calculated using the Termination Settlement Rate ("TSR") also regulated by the Anti-Monopoly Ministry.

Prior to August 1, 2003, revenues and expenses related to DLD calls were recognized on the basis of ISR, i.e. on the net basis. The introduction of the new settlements system represents a change in business practice resulting in new accounting for changed practice. The pro-forma information calculated on the basis of the new settlement system as if it was applied effective January 1, 2002 is presented below.

	2003		2002	
	As reported above	Pro-forma (unaudited)	As reported above	Pro-forma (unaudited)
Revenue from local operators: telephone - national	8,669	12,396	5,859	11,159
Charges by network operators - national	(4,331)	(8,058)	(1,707)	(7,007)

In 2005 new regulations in the national telecommunication sector were put in force (refer to Note 31).

21. SEGMENT INFORMATION

In 2002 and the most part of 2003, the Group operated in three industry segments: Telecommunications, Leasing and Banking and investing. The net income of these segments is presented below:

	Telecommunications	Leasing	Banking and Investing
2004	4,298	-	-
2003	3,507	(3,036)	(73)
2002	2,990	(2,776)	525

As a result of divestiture of business of RTC-Leasing and discontinuance of the leasing, banking and investing segments (refer to Note 23), effective December 1, 2003 the Group operates in one industry segment, being the provision of intercity and international telecommunication services in the Russian Federation. The results of this segment and assets and liabilities as of December 31, 2004 are presented in the consolidated statements of income and the consolidated balances sheet, respectively.

The aggregate leasing and banking and investing segments' results, assets and liabilities as of December 1, 2003 are presented in Note 23.

An analysis of revenue by service type is disclosed in Note 20. A geographical analysis of revenue by the country or region of the customer for the years ending December 31, 2004, 2003 and 2002 is as follows:

	Russia	CIS	USA	Western Europe	Eastern Europe	Others	Total
2004	32,720	2,667	254	1,004	192	481	37,318
2003	26,784	2,926	220	862	252	223	31,267
2002	22,753	2,846	403	881	240	730	27,853

Leasing and banking and investing segments' revenue was principally earned in Russia.

The Group had no individual customers, other than the Government of the Russian Federation and its related parties (see Note 29), that accounted for greater than 10% of its revenue during the years ended December 31, 2004, 2003 and 2002.

Substantially all of the Group assets are located within the territory of the Russian Federation.

22. ADMINISTRATION AND OTHER COSTS (NET)

Administration and other costs consisted of the following for the years ended December 31, 2004, 2003 and 2002:

	2004	**2003**	**2002**
Administration costs	686	1,002	1,375
Advertising and similar costs	162	132	58
Office maintenance	969	882	741
Utilities and similar services	533	490	385
Consulting and similar services	208	261	97
Insurance	377	338	2
Extinguishment of liabilities	(428)	-	-
Other	551	677	678
Total administration and other costs	**3,058**	**3,782**	**3,336**

Extinguishment of liabilities represents a previously recorded liability for which there is no longer a legal obligation. The effect of the extinguishment has been recorded in administration and other costs as this is where it originally has been recorded.

23. DISCONTINUED OPERATIONS

As part of management's efforts to concentrate on the Company's core business segment and as part of the Company's drive to decrease total debt, the Company discontinued two of its components represented by the leasing and banking and investing business segments. The operations in these business segments were conducted through RTC-Leasing and its subsidiaries. Effective December 1, 2003, the Company effectively transferred control over these businesses to a third party.

The results of operations and loss on discontinuance of the above mentioned segments of 3,109, net of income tax expense of 343, was included in the accompanying consolidated statement of income for the year ended December 31, 2003 and reported in discontinued operations.

The discontinuance of the leasing and banking and investing business segments was executed in a series of transactions that constituted an exchange, involving cash consideration, by the Company of its controlling interest in RTC-Leasing to an additional interest in certain items of telecommunications equipment previously owned by RTC-Leasing. To execute this the following actions were undertaken.

On October 24 and 27, 2003, Rostelecom sold all of its shares in RTC-Leasing to the third party for 740.

On October 2, 2003 and on December 26, 2003, Rostelecom and RTC-Leasing signed agreements restructuring the future lease payments of Rostelecom to RTC-Leasing of 6,018, including VAT of 918. Before the restructuring, the liabilities were payable through 2012. As a result of the restructurings, 3,705 became due on January 28, 2004, and 2,313 became due on January 30, 2034.

On January 29, 2004, Rostelecom and RTC-Leasing signed an agreement replacing the restructured lease obligation of 2,313 due in 2034 with a loan payable by Rostelecom to RTC-Leasing in 2038.

On February 12, 2004, Westelcom and RTC-Leasing executed a loan assignment agreement under which Westelcom purchased from RTC-Leasing all rights to the loan for 368, including VAT of 57.

Before December 31, 2003, Rostelecom effectively paid to RTC-Leasing the amount of 3,520 by purchasing promissory notes issued by RTC-Leasing. The amount due under the promissory notes was offset against the restructured lease obligation due on January 28, 2004. In January and April 2004 the Group extinguished the remaining part of the restructured lease obligation for a cash payment of 520 in total.

The results of operations and cash flows of RTC-Leasing were included in the accompanying consolidated financial statements through December 1, 2003.

The accompanying statements of income for the years ended December 31, 2003 and 2002 include as discontinued operations the post-tax results of operations of the discontinued business segments, which comprised the following:

	2003	2002
Loss before tax and minority interest	(761)	(508)
Minority interest in the results of discontinued operations	(650)	(1,153)
Loss recognized on disposal	(804)	-
Write-down of carrying amount of property, plant and equipment	(551)	-
Income tax expense	(343)	(590)
Net loss from the discontinued operations	**(3,109)**	**(2,251)**

The write-down of property, plant and equipment in the amount of 551 represents the difference between the carrying amount of the telecommunication equipment, as restated for hyperinflation (refer to Note 5), and its respective fair value determined by the reference to the replacement cost of this equipment.

The net cash flows for the years ended December 31, 2003 and 2002 pertaining to the discontinued business segments as reported in the accompanying consolidated statements of cash flows, were as follows:

	2003	2002
Cash flows from the discontinued operations:		
Net cash used in operating activities	(7,362)	(5,858)
Net cash (used in) /provided by investing activities	(2,380)	596
Net cash provided by financing activities	7,011	2,062

24. OTHER NON-OPERATING INCOME, NET

Other non-operating income consisted of the following for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Unrealized gain on available-for-sale investments	43	69	41
Fair value of contributions received	-	-	103
Gain on extinguishment of loans payable (refer to Note 18)	-	752	230
Reversal of previously recognized impairment	53	316	-
Other non-operating gain /(loss), net	19	82	(74)
Total other non-operating income, net	**115**	**1,219**	**300**

In October 2002, the Company received telecommunication equipment from a company, which is not a related party, free of charge. Fair value of the equipment was estimated as equal to 103. The Group recognized fair value of the contribution received in other non-operating income, since the contribution was unconditional and the equipment could be utilized to generate future revenue.

25. INCOME TAX EXPENSE

The components of income tax expense for the years ended December 31, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Current tax charge	2,892	2,002	2,363
Deferred tax benefit (Note 19)	(1,528)	(1,763)	(1,511)
Share in income taxes of associates (Note 9)	143	92	115
Income tax expense	**1,507**	**331**	**967**

The reconciliation of the theoretical amount that would arise using the Russian statutory rate of 24% to the total actual income tax was as follows for the years ending December 31, 2004, 2003 and 2002:

	2004	2003	2002
Income tax expense at statutory rate	1,393	938	930
Non-temporary elements of monetary loss	-	-	1,439
Effect of lease arrangements between Rostelecom and RTC-Leasing	-	(620)	(931)
Non-deductible expenses	114	261	973
Other non-temporary differences	-	(248)	-
Inflation effect on deferred tax balance at beginning of year	-	-	(1,444)
Income tax expense	**1,507**	**331**	**967**

Other non-deductible expenses comprise various costs that are non-deductible for Russian profits tax purposes, including depreciation of certain property, plant and equipment, certain employee costs, promotional and sponsorship expenditures, travel expenditures in excess of certain statutory allowances and other expenses.

26. EMPLOYEES

The numbers of employees of the Group was equal to 25,285 as at December 31, 2004 (2003: 26,742).

The Group makes payments to the Government pension fund for its employees. Such contributions are calculated using regressive scale and are charged to expense when incurred during the employee's service period.

The Company participates in the non-state Joint Participation Program which is a pension plan with defined contributions. To participate in the program, individuals should be full-time employees of the Company and should enter into non-state pension insurance agreement with NPF "Telecom-Soyuz", which is the successor of NPF "Rostelecom-Garantiya". Total expenses of the Group under this program amounted to 13 during the year ended December 31, 2004 (2003: 18, 2002: 22) and are included in wages, salaries, other benefits and payroll taxes in the accompanying consolidated statements of income.

The Company also operates a defined benefit pension scheme covering a large number of its employees, which require contributions to be made to NPF "Telecom-Soyuz". Total expenses of the Group under these defined benefit schemes amounted to 28 during the year ended December 31, 2004 (2003: 73, 2002: 46) and are included in wages, salaries, other benefits and payroll taxes in the accompanying consolidated statements of income.

27. EARNINGS PER SHARE

The calculation of basic and diluted earnings per preferred and ordinary share is presented below (earnings per share data is stated in Rubles):

	2004		**2003 (as restated, see Note 2)**		**2002 (as restated, see Note 2)**	
Net income from continuing operations	4,298		3,507		2,990	
Net loss from discontinued operations	-		(3,109)		(2,251)	
Total net income	**4,298**		**398**		**739**	
	Preferred shares	**Ordinary shares**	**Preferred shares**	**Ordinary shares**	**Preferred shares**	**Ordinary shares**
Weighted average number of shares outstanding	**242,831,469**	**728,696,320**	**242,831,469**	**728,696,320**	**242,831,469**	**728,696,320**
Earnings per share – continuing operations	**4.42**	**4.42**	**3.61**	**3.61**	**3.08**	**3.08**
Losses per share – discontinued operations	**-**	**-**	**(3.20)**	**(3.20)**	**(2.32)**	**(2.32)**
Total earnings per share	**4.42**	**4.42**	**0.41**	**0.41**	**0.76**	**0.76**

The calculation of earnings per share is based on net profit for the period divided by the weighted average number of preferred and ordinary shares outstanding during the year. Dividends are fully allocated to continuing operations.

There are no potentially dilutive securities, therefore, diluted earnings per share equal basic earnings per share.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

For monetary assets and liabilities, the carrying amounts approximate their fair value and balance sheet items denominated in foreign currencies have been translated at appropriate period end exchange rates.

The carrying amounts of cash and cash equivalents approximate their respective fair values due to their short-term nature and negligible credit losses.

29. RELATED PARTY TRANSACTIONS

(a) The Government and OAO Svyazinvest as a shareholder

As indicated in Note 1, the immediate parent company of the Company is OAO Svyazinvest which holds 50.67% of the voting capital of the Company, and its representatives comprise a majority of the Board of Directors. The Government of the Russian Federation in turn holds 75% less one share of the voting capital of OAO Svyazinvest and, therefore, ultimately controls the Company. It is a matter of the Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

In the past, a number of Government statements have indicated that it is considering restructuring the telecommunications sector controlled by OAO Svyazinvest. Refer to Note 31 for regulatory actions announced so far.

(b) Interest of the Government in the telecommunications sector in the Russian Federation and the protection of that interest

Effective telecommunications and data transmission are of great importance to Russia for various reasons, including economic, social, strategic and national security considerations. The Government has exercised and may be expected to exercise significant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the Federal Tariff Agency, has the general authority to regulate domestic tariffs, and does regulate tariffs. The Ministry of Information Technologies and Telecommunications of the Russian Federation has control over the licensing of providers of telecommunications services.

(c) Transactions with the Svyazinvest Group

The Svyazinvest Group uses the Group's network to carry traffic between its regional and other operators and to and from these regional operators, and to and from international operators.

The Group uses the regional networks of the Svyazinvest Group to complete calls and other traffic, including that originating from its direct subscribers in the city of Moscow.

Tariffs for services between the Company and the Svyazinvest Group are materially affected with governmental regulation as disclosed in paragraph (b) of this note.

The Group also consumes design services from certain companies of the Svyazinvest Group which are included in 2004 in additions of property, plant and equipment in amount of 19 (2003: 37).

The Group makes certain contributions to non-for-profit organizations which are companies of the Svyazinvest Group.

The Group makes contributions to the non-state pension fund which provides the Company's employees with a number of post-employment benefits (refer to Note 26). OAO Svyazinvest executes significant influence over the operations of the fund.

The amounts of revenue and expenses relating to the transactions with the Svyazinvest Group were as follows:

	2004	**2003**	**2002**
Revenue	16,987	11,944	9,342
Lease revenue (included in loss from discontinued operations)	-	472	18
Charges by network operators - national	(6,362)	(2,930)	(264)
Administration and other costs	-	-	(160)
Contributions to non-for-profit organizations (included in administration and other costs)	(244)	(54)	(94)
Contributions in pension fund included in wages, salaries , other benefit and payroll taxes	(77)	(148)	(85)

In addition, OAO Svyazinvest participates in the dividends declared by the Company, commensurate with its shareholding.

The amounts of receivables and payables due from and to the Svyazinvest Group were as follows:

	2004	**2003**
Short-term investments	5	16
Accounts receivable, net	1,218	1,124
Accounts payable	(302)	(192)
Payable to pension fund (included in compensation related accruals)	(184)	(206)

(d) Transactions with the Government

Other state bodies ("Budget Organizations"), such as the Ministry of Defense and entities affiliated to the Government, primarily state controlled TV and radio companies, use the Group's network to carry communications traffic and to broadcast across the country. In some cases, the service is in the nature of rent of telecommunication channels for which the Group charges below market rates.

The Company made certain contributions to State Research and Development Funds.

The amounts of revenue and expenses relating to the transactions with the Government were as follows:

	2004	**2003**	**2002**
Revenue	2,064	1,388	1,211
Contributions to State Research and Development Fund (included in administration and other costs)	-	(65)	(102)

The amounts of receivables and payables due from and to such organizations were as follows:

	2004	**2003**
Accounts receivable, net	286	651
Accounts payable	(24)	(22)

(e) Transactions with investees

The Group is also involved in various telecommunication services with entities and companies in which it has investments, including associates over which it exerts significant influence.

A summary of these transactions is as follows:

	2004	**2003**	**2002**
Revenue	1,404	796	666
Charges by network operators – national	(262)	(126)	(26)

Amounts included in the consolidated balance sheets relating to the operations with these entities were as follows:

	2004	**2003**
Accounts payable and accrued expenses	(29)	(44)
Accounts receivable, net	235	143

(f) Directors' remuneration

During the year the Board of Directors consisted of the following members:

Until June 26, 2004	**Until December 31, 2004**
Yashin V.N.	Yashin V.N.
Avdiyants S.P.	Avdiyants S.P.
Belov V.Y.	Belov V.Y.
Yemelianov N.P.	Degtyarev V.V.
Kuznetsov S.I.	Erokhin D.E.
Lopatin A.V.	Panchenko S.N.
Panchenko S.N.	Polischuk V.A.
Polischuk V.A.	Ragozina I.M.
Ragozina I.M.	Slipenchuk M.V.
Slipenchuk M.V.	Finger G.M.
Yurchenko E.V.	Yurchenko E.V.

In 2004, the total remuneration of the directors amounted to 22 (2003: 39, 2002: 21).

(g) Other related party transactions

In 2004 and 2003 the Company acquired promissory notes of OAO Svyazbank for 1,333 and 7, respectively, and settled partially the promissory notes for 750 and nil, respectively. Net income from sale of promissory notes of OAO Svyazbank amounted to 12 (2003: nil) and was included in interest income in the accompanying consolidated statement of income. Also refer to Note 13. Certain directors of the Company and OAO Svyazinvest are directors of OAO Svyazbank.

In June-August 2003, in order to redeem its liability to Vietnam Telecom, the Company paid to OAO Svyazbank, acting in the capacity of the agent of an unrelated party, USD 15.1 million (462 at the exchange rates at the dates of settlement).

In 2003 the Company purchased software from ZAO Peter-Service, net book value of which amounted to 142. Also during 2004 and 2003 the Company incurred additional expenses in relation to this software in amount of 26 and 11, respectively, which were included in administration and other costs in the accompanying statements of income. Prepayments made to ZAO Peter-Service included in the accompanying balance sheet amounted to 11 and 27 as of December 31, 2004 and 2003, respectively. Certain directors of the Company are directors of the company that controls ZAO Peter-Service.

30. CAPITAL COMMITMENTS

The Group's capital expenditure program approved by the Board of Directors for the year ending December 31, 2005 projects capital expenditures of 7,283.

31. CONTINGENCIES

a) Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant federal and regional authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As of December 31, 2004 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

As a result of the comprehensive tax inspection covering the periods of 1999, 2000 and 2001, the Ministry of Taxes and Levies of the Russian Federation assessed 2,488 of additional taxes, including fines and penalties payable by Rostelecom. The Group prevailed in court. In November 2004, the Supreme Arbitrary Court of the Russian Federation confirmed the Group's tax positions, thus the assessment of the Ministry of Taxes and Levies of the Russian Federation was rejected and became void. No amounts related to this issue were accrued by the Group as of December 31, 2004 and 2003.

b) Legal proceedings

The Group is subject to a number of proceedings arising in the course of the normal conduct of its business. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations or the financial position of the Company or the Group.

In 2003, the Audit Chamber of the Russian Federation completed the inspection of Svyazinvest and its subsidiaries, including the Company. No penalties were imposed on the Company as a result of the inspection.

c) Licenses

Substantially all of the Company's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years ranging from 2005 to 2013. The Company has renewed these licenses on a regular basis in the past, and believes that it will be able to renew licenses without additional cost in the normal course of business. Suspension or termination of the Company's main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Group.

d) Restructuring

There have been a number of announcements by the Government and the Svyazinvest Group with respect to the planned restructuring of the national telecommunications sector. According to the latest Government announcements in view of Russia's acceptance to the World Trade Organization the change of the Group's status as a monopoly supplier of long distance and international communications will occur in 2005.

On March 28, 2005, the Government of the Russian Federation, as required by the Communications Law, approved the Resolution No. 161, "On adoption of Rules of telecommunications networks interconnection and interaction". On May 18, 2005, the Government of the Russian Federation, also as required by the Communications Law, approved the Resolution No. 310, "On adoption of Rules of providing local, zonal, long-distance and international telecommunications services". The major changes introduced by the Resolutions are as follows:

- Introduction of the new order of interconnection and interaction for telecommunications networks
- Stipulation of the material terms of interconnection, including technical, economic and information conditions
- Setting the special order of interconnection and interaction with telecommunications operator having significant influence over the public switch telecommunications network.
- Approval of the specifications of interconnection and traffic transit services provided by telecommunications operators.
- Introduction of the new detailed regulations on signing, execution and termination of telecommunications services agreement, stipulation of the material items of such agreements as well as rights and obligations of counter-parties.
- Formalization of the requirement to sign telecommunications services agreements with properly licensed telecommunications operators only.
- Imposition on domestic and international long-distance operators certain obligations usually carried out by the local operators.

Currently the Company cannot evaluate reliably the impact of the new regulations on its business and results of operations since the complete set of subordinated acts required by the Communication Law

has not been approved, including requirements to the structure of telecommunications networks and traffic transit scheme.

The new regulations allow telecommunications operators to apply for long-distance telecommunications licenses. In May 2005 long-distance licenses were awarded to three additional telecommunications providers. If these and other alternative operators begin to provide nationwide long-distance telecommunications services, the market share of the Company may be eroded.

Following the new regulations, the Company expects a new system of settlements for the international and domestic long-distance traffic will come into force in the foreseeable future, where end-users of long-distance services anywhere in the Russian Federation will become the Company's customers. After implementation of the new system, local operators will be rendering certain services to the Company essential to provision of telecommunication services to end-users by the Company. The new system of settlements will represent a change in business practice resulting in a new system of accounting for the Company's revenues, expenses and accounts receivable and payable for changed practice. The pro-forma information for the year ended December 31, 2004 and any preceding years calculated on the basis of the described new system as if it was applied throughout all preceding periods will be included in the consolidated financial statements for the period when the new system comes into force.

In addition to industry restructuring plans, the Government announced plans to privatize Svyazinvest in 2005. Effects of the industry reform will be reflected in the Group's financial statements as they become known and estimable.

e) Asset retirement obligations

The Company may incur cost related to retirement of telecommunication lines and other assets and restoration of environment. Such costs may arise in connection with registration of title by landlords based on the Land Code of the Russian Federation, which came into force effective 2001. The management believes that occurrence of such events is unlikely. In addition, the timing and amount of such costs may not be identified and measured reliably. The liability would be initially recognized in the period in which sufficient information exists to estimate a range of potential settlement dates that is needed to employ a present value technique to estimate fair value.

32. CREDIT RISK MANAGEMENT

A portion of the Group's accounts receivable is from the State and other public organizations. Collection of these receivables is influenced by political and economic factors. Management believes there were no significant unprovided losses relating to these or other receivables at December 31, 2004.

Financial instruments that could expose the Group to concentrations of credit risk are mainly trade and other receivables. The credit risk associated with these assets is limited due to the Group's large customer base and ongoing procedures to monitor the credit worthiness of customers and other debtors.

The Group deposits available cash with several Russian banks. Deposit insurance is not offered to banks operating in Russia. To manage the credit risk, the Group allocates its available cash to a variety of Russian banks and management periodically reviews the credit worthiness of the banks in which such deposits are held.

33. INTEREST RATE RISK MANAGEMENT

Trade and other receivables and payables are non-interest bearing financial assets and liabilities.

Interest rates payable on the Group's loans and other borrowings are disclosed in Note 18.

34. FOREIGN EXCHANGE RISK

In 2004, approximately 12% of the Group's revenues and 20% of the Group's expenses were denominated in currencies other than the Russian ruble. Revenues generated in foreign currency represent income received from foreign operators, and foreign currency denominated expenses consist primarily of payments to foreign operators for international long-distance traffic termination. Accounts receivable from foreign operators and accounts payable to foreign operators which are denominated in foreign currencies amounted to approximately 7% of the Group's total accounts receivable and 37% of the Group's total accounts payable as of December 31, 2004. All the loans received by the Group during 2004 are denominated in foreign currencies. Thus the Group is exposed to foreign exchange risk.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. However, management believes that the Group is secured from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated purchases and loans.

35. SUBSEQUENT EVENTS

In March 2005 the Company sold its 20% interest in ZAO Telmos to AFK "Systema", which is unrelated party, for a cash payment of 235. This consideration exceeds the carrying value as of December 31, 2004.

In March 2005 the Company sold its 45% interest in ZAO Telecom-Center to OOO "Orbita", which is unrelated party, for a cash payment of 68. This consideration exceeds the carrying value as of December 31, 2004.

In March 2005 new regulations in the national telecommunication sector were put in force (refer to Note 31).

In April 2005 the Group acquired 19% shares of Svyazintek for a cash payment of less than 1.

In April 2005 the shareholders' meeting of GlobalTel approved the new GlobalTel's charter which provides preferred rights to the Company compared to the other shareholder, including abolishment of certain of the other shareholder's rights. The Group is currently in process of assessing the potential impact of these changes on the effective control over GlobalTel and the respective treatment of investment in GlobalTel in the Group's financial statements. Changes in effective control will be accounted for prospectively from the date of such changes.

36. DIFFERENCES BETWEEN INTERNATIONAL FINANCIAL REPORTING STANDARDS AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") which differ in certain respects from accounting principles generally accepted in the United States of America ("US GAAP").

The principal differences between IFRS and US GAAP are presented below together with explanations of certain adjustments that affect total shareholders' equity as of December 31, 2004 and 2003 and net income (loss) for the years ended December 31, 2004, 2003 and 2002.

Reconciliation of net income (loss)

	2004	**2003 (as restated, see Note 2)**	**2002 (as restated, see Note 2)**
Net income reported under IFRS	**4,298**	**398**	**739**
US GAAP adjustments:			
Depreciation on reversed impairment charge (a)	(889)	(800)	(602)
Unrealized gains on available-for-sale investments (b)	(42)	(68)	(41)
Pension expense (c)	-	(30)	(20)
Impact of difference in accounting for investments acquired for resale, net of minority interest (d)	-	59	(59)
Impact of goodwill amortization, net of minority interest (d)	135	92	35
Partial gain recognition (e)	-	-	(3)
Reversal of impairment on investment in equity method investee (f)	-	55	(55)
Deferred tax effects of US GAAP adjustments	177	123	140
Total	(619)	(569)	(605)
Net income/ (loss) under US GAAP	**3,679**	**(171)**	**134**

Earnings per share

	2004		2003 (as restated, see Note 2)		2002 (as restated, see Note 2)	
Net income from continuing operations	3,679		2,915		2,407	
Net loss from discontinued operations	-		(3,086)		(2,273)	
Total net income/ (loss)	**3,679**		**(171)**		**134**	
	Preferred shares	**Ordinary shares**	**Preferred shares**	**Ordinary shares**	**Preferred shares**	**Ordinary shares**
Weighted average number of shares outstanding	**242,831,469**	**728,696,320**	**242,831,469**	**728,696,320**	**242,831,469**	**728,696,320**
Earnings per share – continuing operations	**3.79**	**3.79**	**3.00**	**3.00**	**2.48**	**2.48**
Losses per share – discontinued operations	**-**	**-**	**(3.18)**	**(3.18)**	**(2.34)**	**(2.34)**
Total earnings /(losses) per share	**3.79**	**3.79**	**(0.18)**	**(0.18)**	**0.14**	**0.14**

Basic and diluted earnings per share are the same for all periods presented, as there are no potentially dilutive instruments.

Reconciliation of shareholders' equity

	2004	2003 (as restated, see Note 2)
Total shareholders' equity under IFRS	**50,838**	**47,970**
US GAAP adjustments:		
Reversal of impairment of property, plant and equipment (a)	4,328	5,217
Impact of goodwill amortization, net of minority interest (d)	262	127
Partial gain recognition, net of tax (e)	(3)	(3)
Deferred tax	(344)	(511)
Total	4,243	4,830
Total shareholders' equity under US GAAP	**55,081**	**52,800**

Restatement of previously issued financial statements

As discussed in Note 2, in 2004, the Group corrected certain revenues from local operators and respective expenses, and accounts receivable and payable as of December 31, 2003 and the two years then ended.

At the March 17 - 18, 2004 meeting, the EITF Task Force reached a consensus on certain issues related to “participating securities” and the application of the “two-class method” under FAS No. 128, “Earnings per share.” EITF Issue No. 03-6, “Participating Securities and the Two-Class Method Under FASB Statement No. 128,” provides guidance in determining when a security participates in dividends such that the two-class method must be used to calculate earnings per share. EITF Issue No. 03-6 clarifies that undistributed earnings for a period should be allocated to a participating security based on the contractual participation rights of the security to share in those current earnings. Nonetheless, if the terms of a security do not specify objectively determinable, nondiscretionary participation rights, then undistributed earnings would not be allocated based on arbitrary assumptions. Also, if an entity could avoid distributions of undistributed earnings to participating security holders, then no allocation of that period's earnings to the participating security would be made. As described above, the Company’s preferred shares are considered participating equity instruments. Accordingly, following this guidance, the Group has revised the methods of calculation of earnings per share to properly apply the “two-class method” of calculation.

The reconciliation of earnings per share, as restated, and earnings per share previously reported for the years ended December 31, 2003 and 2002 is as follows:

	2003	2002
Total earnings per share – continuing operations, as previously reported	3.75	2.90
Restatement of revenues and expenses from local operators (refer to Note 2)	(0.18)	0.08
Application of the “two-class method”	(0.57)	(0.50)
Total earnings per share – continuing operations, as restated	**3.00**	**2.48**

	2003	2002
Total losses per share – discontinued operations, as previously reported	(4.16)	(3.12)
Adoption of “two-class method”	1.03	0.78
Other changes (refer to (b) below)	(0.05)	-
Total losses per share - discontinued operations, as restated	**(3.18)**	**(2.34)**

	2003	2002
Total losses per share, as previously reported	(0.41)	(0.22)
Restatement of revenues and expenses from local operators (refer to Note 2)	(0.18)	0.08
Adoption of “two-class method”	0.46	0.28
Other changes (refer to (b) below)	(0.05)	-
Total (losses)/ earnings per share, as restated	**(0.18)**	**0.14**

(a) Reversal of impairment on property, plant and equipment

In 1998, in accordance with IAS No. 36, "Impairment of Assets", the Group recognized an impairment loss of 8,699 on its property, plant and equipment other than construction in progress. The impairment loss was calculated based on the present value of estimated future cash flows from the continued use of the assets using a real-terms (inflation adjusted) discount rate of 20%.

IAS No. 36 requires an assessment of the recoverable amount of an asset whenever there is an indication that the Group's assets may be impaired. Management believed that the Russian economic crisis in 1998 constituted such an indication.

Under US GAAP, SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (superseded by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", effective for financial statements issued for fiscal years beginning after December 15, 2001), requires an initial assessment of impairment based on undiscounted cash flows whenever there is an indication that impairment may exist. Due to the fact that the sum of undiscounted expected future cash flows was in excess of the carrying amount of the Group's property, plant and equipment as of December 31, 1998, an impairment loss was not recognized for US GAAP reporting purposes. Management considers that all of the Group's property, plant and equipment, with the exception of construction in progress, represent the lowest level for which there are largely independent and identifiable cash flows.

Since no impairment loss was recognized under US GAAP in 1998, a different asset base is used to compute US GAAP depreciation expense, loss on disposal of property, plant and equipment and the related deferred tax liability commencing 1999.

Based on management's analysis, the sum of undiscounted expected future cash flows was in excess of the carrying amount of the Group's property, plant and equipment as of December 31, 2004, 2003 and 2002, thus, no impairment loss was recognized under US GAAP.

Deferred tax effect was computed using tax rate of 24% for 2004, 2003 and 2002. Deferred tax benefit recognized on reversal of impairment on property, plant and equipment in 2004, 2003 and 2002 represents the effects of reversal of the temporary differences associated with disposals and additional depreciation.

(b) Unrealized gains on available-for-sale investments

In accordance with IAS No. 39, "Financial Instruments: Recognition and Measurement", gains or losses from change in the fair value of securities classified as available-for-sale investments may be included in net profit and loss for the period in which they arise. The Group has chosen to include unrealized gains and losses on the investments in the determination of net income.

Under US GAAP, SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", provides that such available-for-sale securities are reported at fair value with unrealized gains and losses, net of tax, to be excluded from earnings and reported as a separate component of comprehensive income. Unrealized gains and losses represent the net change in fair value of investments classified as available-for-sale. Declines in value of available-for-sale securities judged to be other than temporary are recognized in the statement of operations. In 2004, the calculation of the tax effect of unrealized gain was revised for 2003.

(c) Pension expense and obligations

The Company made certain payments to employees on retirement. These obligations were substantially similar to those typically existing under a defined benefit pension scheme.

IAS No. 19, "Employee Benefits", was issued by the International Accounting Standards Board to revise existing standards relating to retirement benefits cost, and became effective for the financial statements beginning on or after January 1, 1999. In accordance with US GAAP, similar issues are covered by SFAS No. 87, "Employer's Accounting For Pensions". Under both standards, pension expense is based upon a specified methodology that includes a designated actuarial approach and reflects the concept of accrual accounting. Pension expense is reflected in the consolidated statement of income systematically over the working lives of employees covered by the plan. Plan amendments (including initiation of a plan) often include provisions that grant increased benefits based on services rendered in prior periods. Because plan amendments are granted with the expectation that the employer would realize economic benefits in future periods, SFAS No. 87 does not require the cost of providing such retroactive benefits (that is, prior service cost) to be included in net periodic pension cost entirely in the year of the amendment. SFAS No. 87 provides for recognition of prior service cost during the future service periods of employees who are expected to receive benefits under the plan.

In accordance with IAS 19, prior service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested (i.e. become no longer conditional on future employment). To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognize prior service cost immediately.

As of December 31, 2002, prior service cost as recorded in IFRS accounts have been fully recognized. In US GAAP accounts, unrecognized transition amounts were amortized over 20 years.

(d) Accounting for investments in associates

Before IFRS No.5 was adopted, the Group accounted for an investment in associate that was acquired and held exclusively with a view to its disposal in the near future as an available-for-sale financial asset in accordance with IAS 39, "Financial Instruments: Recognition and Measurement".

In 2002 the Group acquired and, in 2003, sold certain investments which in the normal course of business would qualify for equity method accounting. In IFRS accounts these investments were classified and accounted for as available-for-sale.

Effective January 1, 2002, SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets", eliminated the exception to application of the equity method for an investment in associates where significant influence is likely to be temporary. Accordingly, in US GAAP accounts, the investments in these associates were accounted for using equity method of accounting.

Amount of (59) reported in the reconciliation of net income and shareholders' equity for 2002 above represents the difference between the amount of gain from changes in the fair value of these available-for-sale investments, recognized in the IFRS accounts, and the amount of equity income, reported under the US GAAP, net of minority interest.

In 2003 these investments were sold. Accordingly, the differences in accounting for these investments under IFRS and US GAAP, reported in prior periods, were reversed in 2003.

As described in Note 9, during 2002, the Group acquired 15% of voting stock of Golden Telecom, Inc. In the opinion of management, the Group exercised significant influence over financial and operating policies of Golden Telecom. In accordance with IAS No. 28, "Accounting for Investments in Associates", the Group amortized the equity method goodwill related to its investment in Golden Telecom over its estimated useful life of 8 years. During 2002, in its IFRS accounts, the Group recognized related amortization expense in the amount of 32. Also, during 2002, in its IFRS accounts, the Group recognized goodwill of 42 in connection with certain business combinations and purchases of minority interest. Amortization of related goodwill in 2002 amounted to 3. During 2004 and 2003 the equity method goodwill related to investment in Golden Telecom recognized in IFRS accounts amounted to 135 and 95, respectively.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is not amortized and is subject to annual impairment tests in accordance with SFAS No. 142. The Group performed the annual impairment test in respect to recoverability of the carrying amount of goodwill at December 31, 2004 and 2003 by comparing the fair value to the carrying amount. Fair value exceeded the carrying amount and the Group did not recognize any impairment loss.

(e) Partial gain recognition

During 2002 the Group completed a sale of its 50% interest in EDN Sovintel to Golden Telecom in exchange for a cash payment of US$10 million, no-interest bearing US$46 million promissory note and 15% of then outstanding ordinary shares of Golden Telecom.

In connection with this transaction, in its IFRS accounts, the Group recognized a gain of 1,733, which represented a difference between fair value of the total consideration received and the carrying amount of the investment in EDN Sovintel as of the date of sale, net of direct costs associated with the transaction. Before the sale to Golden Telecom, the Group accounted for its investment in EDN Sovintel using equity method.

In its US GAAP accounts, in accordance with requirements of Emerging Issues Task Force Issue No. 01-02, "Interpretations of APB 29", the Group recognized a gain of 1,730. The difference of 3 between the amount of gain recognized under IFRS and US GAAP pertains to a portion of the gain represented by the economic interest retained by the Group.

(f) Reversal of impairment on investment in equity method investee

During 2002 due to certain changes in management's estimates and in accordance with provisions of IAS No. 36, "Impairment of Assets", in its IFRS accounts the Group recorded a partial reversal of impairment loss of 55 recognized in 2001 in connection with its investment in MCC, which is accounted for using equity method.

US GAAP prohibits reversals of previously recognized impairment losses.

In 2003 the investment in MCC was sold. Accordingly, all differences in accounting for this investment under IFRS and US GAAP reported in prior periods reversed in 2003.

Investments in associates

The following table presents summarized income statement and balance sheet information of the Group's significant equity method investee, EDN Sovintel, for the period from January 1, 2002 to September 16, 2002 (the date of its disposal, refer to Note 9, translated into Rubles using exchange rate as of December 31, 2002):

	2002
Income statement information	
Revenues	3,218
Operating income	822
Net income	607

Summarized financial information for 2002 for the Group's unconsolidated investment in GlobalTel was as follows (translated into Rubles using exchange rate as of December 31, 2002):

	2002
Income statement information	
Revenues	395
Operating loss	(294)
Net loss	(344)

Summarized financial information for 2003 of the Group's significant equity method investee, Golden Telecom, Inc, was as follows (translated into Rubles using exchange rate as of December 31, 2003):

	2003
Income statement information	
Revenues	10,619
Operating income	2,054
Net income	1,633
Financial position information	
Current assets	5,542
Non-current assets	15,937
Current liabilities	2,944
Non-current liabilities	1,365
Net assets	17,090

New US GAAP standards adopted in 2004

The Group adopted the provisions of Emerging Issues Task Force Issue 00-21 ("EITF 00-21"), "Accounting for Revenue Arrangements with Multiple Deliverables". For multiple element arrangements entered into after December 31, 2003, EITF 00-21 addresses a vendor's accounting for transactions involving the delivery of more than one product or service, and when it is necessary to separate the transaction into individual component deliverables, each with its own separate earnings process. If the conditions requiring separate revenue recognition exist, revenue is allocated among the different deliverables based on their relative fair values (the relative fair value of each of the component deliverables to the aggregated relative fair value of the bundled deliverables), with revenue for each component deliverable recognized when the revenue is realized and earned. The adoption of EITF 00-21 did not have a material impact on the Group's results of operations, financial position or cash flows.

The Group adopted the provisions of Emerging Issues Task Force Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease" ("EITF 01-8") for arrangements entered into after December 31, 2003. EITF 01-8 addresses how to determine whether an arrangement contains a lease that is within the scope of SFAS No. 13, "Accounting for Leases," and requires lease accounting for contractual arrangements that explicitly or implicitly convey the right to use (or control the use of) specific property, plant or equipment. The adoption of EITF 01-8 did not have a material impact on the Group's results of operations, financial position or cash flows.

The Group adopted the remaining transitional provisions of the Financial Accounting Standards Board Interpretation No. 46R ("FIN 46R"), "Consolidation of Variable Interest Entities" ("VIEs"), to all entities that existed prior to February 1, 2003. This interpretation changed the accounting and requirements for consolidation and disclosure of certain entities, including special purpose entities ("SPEs"). Under FIN 46R, an entity is considered a VIE (and subject to consolidation) if its total equity at risk is determined insufficient to finance its activities without additional subordinated financial support, or if its equity investors lack certain characteristics that represent a controlling financial interest. An entity that is considered a VIE would be required to be consolidated by the enterprise that holds a majority of its "variable interests" (that is, the enterprise that has the most exposure to the economic risks and the potential rewards from changes in the values of the VIE's assets and liabilities).

The Group holds variable interests in VIEs where the Group is not the primary beneficiary and which are not significant either individually or in the aggregate. There were no VIEs created after January 31, 2003, which would require immediate application of FIN 46R.

New accounting pronouncements

During 2003-2004, several new standards, interpretations or revisions to existing standards were issued.

The Group is currently evaluating the impact of the following new or revised standards and interpretations on its results of operations, financial position and cash flows and is in process of developing an implementation strategy:

In December 2003, FASB Statement No. 132 (revised 2003) "Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FASB Statements No. 87, 88, and 106" (FASB 132(R)) was issued. It does not change the measurement and recognition provisions of FAS 87, 88 and 106 or the disclosure requirements of the original FAS 132, which it replaces. FAS 132(R) requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. For foreign plans, FAS 132(R) is effective for years ending after June 15, 2004.

In November 2004, FASB Statement No. 151 "Inventory Costs—an amendment of ARB No. 43, Chapter 4" (FAS 151) was issued. FAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 24, 2004. FAS 151 should be applied prospectively.

In December 2004, FASB Statement No. 153 "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29" (FAS 153) was issued. FAS 153 amends APB 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. FAS 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for non-monetary asset exchanges occurring in fiscal periods beginning after December 16, 2004. FAS 153 should be applied prospectively.

In March 2004, the Emerging Issues Task Force (EITF) within FASB reached a consensus on Issue No. 03-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF 03-1). The issue is to determine the meaning of other-than-temporary impairment and its application to debt and equity securities within the scope of FASB Statement No. 115 "Accounting for Certain Investments in Debt and Equity Securities." The impairment methodology for investments accounted for under the equity method is predicated on the notion of other-than-temporary. The taskforce reached a consensus that the application guidance in EITF 03-1 should be used in determining when an investment is considered impaired, whether that impairment is other-than-temporary and the measurement of the impairment. EITF 03-1 was effective for other-than-temporary impairment evaluation made in reporting periods beginning after June 15, 2004. The Board has directed the FASB staff to delay the effective date for the measurement and recognition guidance contained in paragraphs 10-20 of EITF 03-1.

In March 2004, the EITF reached a consensus on EITF Issue 03-16 ("EITF 03-16"), "Accounting for Investments in Limited Liability Companies." EITF 03-16 provides guidance about when to account for an investment in a limited liability company that maintains a specific ownership account for each investor using the cost method or the equity method of accounting. EITF 03-16 applies to all investments in LLCs and is effective for reporting periods beginning after June 15, 2004.

In July 2004, the EITF reached a consensus on EITF Issue 02-14 ("EITF 02-14"), "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock." EITF 02-14 requires an investor to apply the equity method of accounting to investments in common stock of a corporation or in-substance common stock of a corporation, when the investor has the ability to exercise significant influence over the operating and financial policies of the investee. For investments in corporations that are not common stock or in-substance common stock that were previously accounted for under the equity method, EITF 02-14 requires that the investor discontinue the equity method unless required by other applicable guidance. The provisions of EITF 02-14 are effective for the first reporting period beginning after September 15, 2004. The effects of the adoption of EITF 02-14, if any, is to be presented as the cumulative effect of a change in accounting principle.

The adoption of the following new or revised standards and interpretations is not expected to have a material impact on the Group's results of operations, financial position and cash flows:

- FASB Statement No. 123 (revised 2004) "Share-Based Payment",
- FASB Statement No. 152 "Accounting for Real Estate Time-Sharing Transactions—an amendment of FASB Statements No. 66 and 67",
- EITF Issue 04-1, "Accounting for Pre-existing Relationships between the Parties to a Business Combination".

Consolidated statements of changes in shareholders' equity and comprehensive income under US GAAP for the years ended December 31, 2004, 2003 and 2002 are as follows:

	Common shares		Preferred shares			Accumulated other comprehensive income	Total shareholders' equity
	Number of shares	Share capital	Number of shares	Share capital	Retained earnings		
Balance as of January 1, 2002 (as restated, see Note 2)	**728,696,320**	**75**	**242,831,469**	**25**	**53,479**	**271**	**53,850**
Comprehensive income							
Net income (as restated, see Note 2)	-	-	-	-	134	-	**134**
Net change in unrealized gain on available-for-sale investments	-	-	-	-	-	41	**41**
Comprehensive income	-	-	-	-	134	41	**175**
Dividends for 2001	-	-	-	-	(399)	-	**(399)**
Balance as of December 31, 2002 (as restated, see Note 2)	**728,696,320**	**75**	**242,831,469**	**25**	**53,214**	**312**	**53,626**
Comprehensive income							
Net loss (as restated, see Note 2)	-	-	-	-	(171)	-	**(171)**
Net change in unrealized gain on available-for-sale investments	-	-	-	-	-	51	**51**
Comprehensive loss	-	-	-	-	(171)	51	**(120)**
Dividends for 2002	-	-	-	-	(706)	-	**(706)**
Balance as of December 31, 2003 (as restated, see Note 2)	**728,696,320**	**75**	**242,831,469**	**25**	**52,337**	**363**	**52,800**
Comprehensive income							
Net income	-	-	-	-	3,679	**-**	**3,679**
Net change in unrealized gain on available-for-sale investments	-	-	-	-	-	32	**32**
Comprehensive income	-	-	-	-	3,679	32	**3,711**
Dividends for 2003	-	-	-	-	(1,430)	-	**(1,430)**
Balance as of December 31, 2004	**728,696,320**	**75**	**242,831,469**	**25**	**54,586**	**395**	**55,081**