OAO ROSTELECOM

CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS OF JUNE 30, 2004 AND 2003 AND FOR THE SIX-MONTH PERIODS THEN ENDED

INDEX

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 condensed consolidated interim financial statements set out on pages 4 to 18, 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 condensed consolidated interim financial statements, which are based on the statutory accounting reports adjusted to comply with International Accounting Standard No. 34 "Interim Financial Reporting", 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

January 31, 2005

(In millions of Russian Rubles)

	Notes	June 30, 2004 (unaudited)	December 31, 2003*
ASSETS			
Property, plant and equipment, net	5	46,965	49,585
Investments in associates		2,530	2,381
Long-term financial investments		166	126
Goodwill		13	17
Other non-current assets		21	26
Non-current assets		**49,695**	**52,135**
Inventory		546	548
Accounts receivable, net	6	7,713	8,291
Short-term investments		4,212	2,755
Cash and cash equivalents		3,682	2,529
Current assets		**16,153**	**14,123**
Total assets		**65,848**	**66,258**
SHAREHOLDERS' EQUITY, MINORITY INTEREST AND LIABILITIES			
Share capital		100	100
Retained earnings		49,742	48,757
Total shareholders' equity		**49,842**	**48,857**
Minority interest		**-**	**191**
Accounts payable and accrued expenses		4,375	3,510
Taxes payable		1,923	2,054
Current portion of interest bearing loans	8	1,210	1,932
Current liabilities		**7,508**	**7,496**
Interest bearing loans - net of current portion	8	1,173	1,641
Non-current accounts payable		271	366
Deferred tax liability	9	7,054	7,707
Non-current liabilities		**8,498**	**9,714**
Total liabilities		**16,006**	**17,210**
Total shareholders' equity, minority interest and liabilities		**65,848**	**66,258**
Commitments and contingencies	14	-	-

* Derived from audited consolidated financial statements as of December 31, 2003 and for the year then ended.

The accompanying notes are an integral part of these condensed consolidated interim financial statements
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(In millions of Russian Rubles unless otherwise stated)

	Notes	The six months ended June 30, 2004 (unaudited)	2003 (unaudited, restated)
Revenue			
Local operators	10,11	10,769	6,276
Subscribers	10	4,368	4,494
Foreign operators	10	2,204	2,200
Other	10	617	492
Total revenue		**17,958**	**13,462**
Operating expenses			
Wages, salaries, other benefits and payroll taxes		(2,182)	(1,946)
Depreciation	5	(3,649)	(4,349)
Charges by network operators – international		(3,056)	(2,692)
Charges by network operators – national	11	(3,930)	(918)
Administration and other costs		(1,476)	(1,486)
Taxes other than on income		(309)	(162)
Repairs and maintenance		(367)	(362)
Bad debt expense		(91)	(249)
Loss on sale of property, plant and equipment		(73)	(226)
Total operating expenses		**(15,133)**	**(12,390)**
Operating profit		**2,825**	**1,072**
Gain from associates (before tax)		**130**	**48**
Interest expense		(11)	(85)
Interest income		241	208
Other non-operating income, net	3	8	614
Foreign exchange gain, net		56	81
Income before tax and minority interest		**3,249**	**1,938**
Current tax charge		(1,429)	(1,087)
Deferred tax benefit		651	608
Share in income taxes of associates		(56)	(54)
Income tax expense	9	**(834)**	**(533)**
Income after taxation		**2,415**	**1,405**
Minority interest		**-**	**(20)**
Net income from continuing operations		**2,415**	**1,385**
Net loss from discontinued operations	3	**-**	**(593)**
Net income for the period		**2,415**	**792**
		Rubles	**Rubles**
Earnings per share – continuing operations	7	2.23	1.48
Earnings per share – discontinued operations	7	-	(0.82)
Earnings per share – basic and diluted		**2.23**	**0.66**

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

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(In millions of Russian Rubles)

	Notes	The six months ended June 30, 2004 (unaudited)	2003 (unaudited, restated)
Cash flows from operating activities			
Net income before tax, minority interest and discontinued operations		3,249	1,938
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		-	(47)
Depreciation	5	3,649	4,361
Bad debt expense		91	271
Gain from associates, before tax		(130)	(45)
Loss on sale of property, plant and equipment		73	226
Net interest and other non-operating income		(237)	(743)
Other non-monetary loss / (income)		(3)	(26)
Foreign exchange gain, net		(56)	(50)
Changes in net working capital:			
Decrease/ (increase) in accounts receivable		314	(358)
Increase in lease receivables		-	(1,758)
Increase in inventories		(13)	(1)
Increase / (decrease in payables and accruals)		170	(1,867)
Cash generated from operations		**7,107**	**1,901**
Interest paid		(42)	(518)
Interest received		157	208
Income tax paid		(1,528)	(1,160)
Net cash provided by operating activities		**5,694**	**431**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,360)	(1,659)
Proceeds from sale of property, plant and equipment		21	13
Purchase of available-for-sale investments (securities), net		(12,230)	(2,000)
Proceeds from sale of available-for-sale investments, net of direct costs		10,820	1,292
Dividends received from associates		45	-
Repayment of lease obligations		(520)	-
Cash disposed as a result of deconsolidation of RTComm.RU		(123)	-
Net cash used in investing activities		**(3,347)**	**(2,354)**
Cash flows from financing activities			
Drawdown of interest bearing loans		163	1,570
Repayment of interest bearing loans		(1,349)	(1,556)
Proceeds from issuance of notes		-	2,259
Redemption of notes		-	(592)
Dividends paid		(5)	(12)
Dividends paid to minority shareholders of a subsidiary		-	(3)
Net cash (used in)/ provided by financing activities		**(1,191)**	**1,666**
Effect of exchange rate changes on cash and cash equivalents		**(3)**	**(39)**
Net increase/ (decrease) in cash and cash equivalents		**1,153**	**(296)**
Cash and cash equivalents at beginning of period		**2,529**	**3,642**
Cash and cash equivalents at end of period		**3,682**	**3,346**

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

(In millions of Russian Rubles)

	Note	Share capital	Retained earnings	Total
Balance at December 31, 2002		**100**	**48,933**	**49,033**
Dividends	7	**-**	(706)	(706)
Net income for the period (unaudited, restated)	3	**-**	792	792
Balance at June 30, 2003 (unaudited, restated)	**3**	**100**	**49,019**	**49,119**
Balance at December 31, 2003*		**100**	**48,757**	**48,857**
Dividends	7	**-**	(1,430)	(1,430)
Net income for the period (unaudited)		**-**	2,415	2,415
Balance at June 30, 2004 (unaudited)		**100**	**49,742**	**49,842**

* Derived from audited consolidated financial statements as of December 31, 2003 and for the year then ended.

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

1. REPORTING ENTITY

The accompanying condensed consolidated interim 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 on other national and international operators' networks to other national and international operators for completion.

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

The accompanying condensed consolidated interim financial statements incorporate the results of operations of the Company and its subsidiaries.

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 June 30, 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. BASIS OF PRESENTATION

These condensed consolidated interim financial statements have been prepared in accordance with and comply with International Accounting Standard ("IAS"), No. 34, "Interim Financial Reporting", as published by the International Accounting Standards Board ("IASB").

Some of the notes to the financial statements were reduced or not included into these condensed consolidated interim financial statements according to IAS No. 34. The management of the Group believes that the notes to the condensed consolidated interim financial statements are sufficient to prevent the misleading of users of these financial statements. In the opinion of the Group's management, the business is not subject to material seasonal fluctuations.

The condensed consolidated interim financial statements for the interim period presented may not be necessarily indicative of the financial results for any later interim periods or for the whole year.

The condensed consolidated interim financial statements have been prepared using the same accounting policies as for the year ended December 31, 2003.

The Group maintains its accounting records and prepares its statutory accounting reports in accordance with Russian accounting legislation and instructions in Russian Rubles. The accompanying condensed consolidated interim financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board.

The condensed consolidated interim financial statements have been prepared using the historical cost convention, restated for the effects of inflation up to December 31, 2002 and modified by the initial valuation of property, plant and equipment. The functional currency of the Group and the reporting currency for the accompanying condensed consolidated interim financial statements is the Russian Ruble (Rbl).

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 operating costs 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.

3. RESTATEMENT OF PREVIOUSLY REPORTED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2003

(a) Discontinued operations

In March 2004, the IASB issued 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. In addition, IFRS No. 5 withdrew IAS No. 35, "Discontinuing Operations", and replaced 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 relates to all operations that have been classified as discontinued by the latest balance sheet date.

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 Reporting Standards, which are directly affected by the new requirements.

As part of management's efforts to concentrate on the Group's core business segment and as part of the Group's drive to decrease total debt, effective December 1, 2003, the Group 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 (refer to Note 12).

In the accompanying condensed consolidated statement of income and cash flows the Group re-presented comparative amounts for the six months ended June 30, 2003 in accordance with IFRS No. 5 to give effects to the discontinuance of leasing, banking and investing segments.

The accompanying condensed consolidated statement of income for the six months ended June 30, 2003 include as discontinued operations the post-tax results of operations of the discontinued business segments, which comprised the following:

Revenue	291
Operating expenses	(231)
Other losses, net of gains	(107)
Loss before tax and minority interest	**(47)**
Income tax benefit	57
Minority interest in the results of discontinued operations	(603)
Net loss from the discontinued operations	**(593)**

The net cash flows for the six months ended June 30, 2003 pertaining to the discontinued business segments as reported in the accompanying condensed consolidated statements of cash flows, were as follows:

Cash flows from the discontinued operations	
Net cash used in operating activities	(3,189)
Net cash used in investing activities	(985)
Net cash provided by financing activities	1,587

(b) Other restatements

The Group has also restated its condensed consolidated financial statements for the six months ended June 30, 2003 due to recalculation of interest expense and income tax provision and timing of recognition of certain expenses at the Company's subsidiaries. These changes resulted in increase in interest expense and loss from discontinued operations and decrease in other non-operating income, income tax expense and net income for the six months ended June 30, 2003 of 27, 63, 52, 6 and 136, respectively.

The table below summarized the impact of re-presentation of discontinued operations and other restatements on the condensed consolidated statements of income and changes in shareholders' equity for the six months ended June 30, 2003:

	As previously reported	**Re-presentation of discontinued operations (a)**	**Other restatements (b)**	**As reported above**
Other revenues	783	(291)	-	492
Wages, salaries, other benefits and payroll taxes	(2,063)	117	-	(1,946)
Depreciation	(4,361)	12	-	(4,349)
Administration and other costs	(1,557)	71	-	(1,486)
Taxes other than on income	(171)	9	-	(162)
Bad debt expense	(271)	22	-	(249)
Operating profit	**1,132**	**(60)**	**-**	**1,072**
Gain from associates (excluding related tax)	45	3	-	48
Interest expense	(385)	327	(27)	(85)
Interest income	300	(92)	-	208
Other non-operating income, net	828	(162)	(52)	614
Gain on debt restructuring	738	-	-	738
Other non-operating income, net	90	(162)	(52)	(124)
Foreign exchange gain, net	50	31	-	81
Income before tax and minority interest	**1,970**	**47**	**(79)**	**1,938**
Income tax expense	(419)	(120)	6	(533)
Minority interest	(623)	603	-	(20)
Net income from continuing operations	**928**	**530**	**(73)**	**1,385**
Loss from discontinued operations	-	(530)	(63)	(593)
Net income	**928**	**-**	**(136)**	**792**
Earnings per share – continuing operations	0.85	0.73	(0.10)	1.48
Earnings per share – discontinued operations	-	(0.73)	(0.09)	(0.82)
Earnings per share – basic and diluted	**0.85**	**-**	**(0.19)**	**0.66**
Retained earnings as of June 30, 2003	**49,155**	**-**	**(136)**	**49,019**

4. ACCOUNTING FOR THE EFFECTS OF INFLATION

Prior to December 31, 2002, the Russian Federation met the definition of a hyperinflationary economy as defined by IAS No. 29, "Financial Reporting in Hyperinflationary Economies". Effective January 1, 2003, the economy of the Russian Federation ceased to meet the criteria of hyperinflationary economy. Accordingly, beginning January 1, 2003, the Group 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 basis for the respective assets at January 1, 2003. Transactions undertaken subsequent to December 31, 2002 were 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.

5. PROPERTY, PLANT AND EQUIPMENT, NET

The net book value of property, plant and equipment as of June 30, 2004 and December 31, 2003 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost or valuation					
At January 1, 2004	23,386	122,290	23,266	5,345	174,287
Additions	-	18	-	1,476	1,494
Disposals	(175)	(467)	(405)	(121)	(1,168)
Transfers	2	896	699	(1,597)	-
At June 30, 2004 (unaudited)	23,213	122,737	23,560	5,103	174,613
Accumulated Depreciation					
At January 1, 2004	(15,471)	(92,756)	(16,475)	-	(124,702)
Depreciation expense	(277)	(2,457)	(915)	-	(3,649)
Disposals	138	268	297	-	703
At June 30, 2004 (unaudited)	(15,610)	(94,945)	(17,093)	-	(127,648)
Net book value at December 31, 2003	7,915	29,534	6,791	5,345	49,585
Net book value at June 30, 2004 (unaudited)	7,603	27,792	6,467	5,103	46,965

Interest amounting to 98 and 123 was capitalized in property, plant and equipment for the six months ended June 30, 2004 and for the year ended December 31, 2003, respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 7.3% and 6.3%, respectively. Property, plant and equipment with a carrying value of 2,112 and 2,158 was pledged in relation to loan agreements entered into by the Group as of June 30, 2004 and December 31, 2003, respectively.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable as of June 30, 2004 and December 31, 2003 comprised the following:

	June 30, 2004 (unaudited)	December 31, 2003
Trade accounts receivable	7,724	7,594
Less: allowance for doubtful accounts	(2,390)	(2,406)
Trade accounts receivable, net	5,334	5,188
Prepayments	349	425
Prepaid taxes	1,511	2,030
Other accounts receivable	818	931
Less: allowance for doubtful accounts	(299)	(283)
Other accounts receivable, net	2,379	3,103
Total accounts receivable, net	**7,713**	**8,291**

7. SHAREHOLDERS' EQUITY

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

On June 26, 2004, the Annual General Shareholders' Meeting declared dividends of 1,430 in respect of 2003. Ordinary shares dividends amounted to 0.88 Ruble per share (640) and dividends on the preferred shares amounted to 3.25 Ruble per share (790).

Earnings per share

In accordance with IAS No. 33, "Earnings per share", the calculation of basic and diluted earnings per ordinary share is based on net profit for the six months period ended June 30, 2004 and 2003 attributable to ordinary shareholders (net profit for the period less dividends on preferred shares) of 1,625 and 482 by the weighted average number of ordinary shares outstanding during the year of 728,696,320. Dividends on preferred shares are fully attributable to earnings from continuing operations. There are no potentially dilutive securities, therefore, diluted earnings per share equal basic earnings per share.

8. INTEREST BEARING LOANS

The interest bearing loans as of June 30, 2004 and December 31, 2003 were as follows:

	June 30, 2004 (unaudited)	December 31, 2003
Maturity		
Current portion of interest bearing loans	**1,210**	**1,932**
Between one to two years	1,046	1,088
Between two to three years	115	518
Between three to four years	11	35
Non-current portion of interest bearing loans	**1,173**	**1,641**
Total interest bearing loans	**2,383**	**3,573**

As of June 30, 2004 and December 31, 2003, interest bearing loans, which are mostly denominated in foreign currencies are summarized as follows:

	June 30, 2004 (unaudited)	December 31, 2003
US Dollars (US$)	1,997	2,639
Japanese Yen (JPY)	214	245
EURO	172	34
Foreign currency denominated loans	**2,383**	**2,918**
Russian Ruble denominated loans	**-**	**655**
Total interest bearing loans	**2,383**	**3,573**

In April, 2004, the Company has entered into credit agreement with ING BHF-BANK. Total amount of the credit line is EURO 7 million, payable up to 2008 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. Total outstanding amount as of June 30, 2004 is EURO 4 million (156). 48 are included in current portion of long-term debt.

In May, 2004, Vneshtorgbank transferred to the Company JPY 44 million within the credit line with maximum amount of JPY 105 million provided in 2003. The credit line is open through February 25, 2005 and bears annual interest rate of 5.75%. Total outstanding amount as of June 30, 2004 is JPY 44 million (12). 10 are included in current portion of long-term debt.

In April 2004 the Company settled 695 on a credit agreement between Rostelecom and RTDC. The interest free loan, with principal amount of 777, was assigned by RTC-Leasing to RTDC in accordance with the assignment agreement entered into in December 2003. The amount paid equals to the present value of the loan as of the date of settlement. Therefore, no gain or loss was recognized in the condensed consolidated interim statement of income for the six months period ended June 30, 2004.

During the six months ended June 30, 2004, the Company partially settled the following loans:

- US$ 4 million (119) on a credit agreement between Rostelecom and Sumitomo Corporation entered into in March 1997. The annual interest rate equals LIBOR plus 3.2%. Total outstanding amount as of June 30, 2004 is US$ 4 million (103). 101 are included in current portion of long-term debt.

- US$ 17 million (484) on promissory notes issued to Alfa-bank in 2003 with interest rate of 5.94% per annum. Total outstanding amount as of June 30, 2004 is US$ 65 million (1,894). 968 are included in current portion of long-term debt.

- EURO 0.4 million (16) on a credit agreement between Rostelecom and Vnesheconombank entered into in June 1995. The interest rate equals 6.5% per annum. Total outstanding amount as of June 30, 2004 is EURO 0.4 million (16). 16 are included in current portion of long-term debt.

- JPY 9 million (2) within a credit line provided by Vneshtorgbank with maximum amount of JPY 105 million (refer to above).

- JPY 126 million (33) within a credit line provided by Vneshtorgbank with maximum amount of JPY 880 million open through February 25, 2005. The interest rate equals 5.75% per annum. Total outstanding amount as of June 30, 2004 is JPY 754 million (202). 67 are included in current portion of long-term debt. The principal should be repaid in six semiannual installments from August 2004 through February 2005.

9. INCOME TAXES

The components of net deferred tax assets and liabilities at June 30, 2004 and December 31, 2003 were as follows:

	June 30, 2004 (unaudited)	**December 31, 2003**
Tax effects of future tax deductible items:		
Accounts payable and accrued liabilities	-	294
Accounts receivable	58	37
Investment valuation difference	5	44
Other	-	3
Gross deferred tax asset	**63**	**378**
Tax effects of future tax liability items:		
Property, plant and equipment, net	7,092	7,690
Accounts payable	25	-
Leasing arrangements	-	395
Gross deferred tax liability	**7,117**	**8,085**
Net deferred tax liability	**7,054**	**7,707**

The reconciliation of the theoretical amount that would arise using the Russian statutory rates (24%) to the total actual income tax were as follows for the six months ending June 30, 2004 and 2003:

	2004	**2003**
Income tax expense at statutory rate	780	465
Non-deductible expenses	54	68
Income tax expense /(benefit)	**834**	**533**

10. REVENUE

Revenue comprised the following for six months ended June 30, 2004 and 2003:

	Six months ended June 30, 2004 (unaudited)	Six months ended June 30, 2003 (unaudited)
Revenue from local operators		
Telephone - international	2,920	2,377
Telephone - national	6,565	2,944
Other income from local operators	1,284	955
	10,769	**6,276**
Revenue from subscribers		
Telephone - international	1,460	1,481
Telephone - national	1,924	1,733
Internet access	-	559
Rent of telecommunications channels to subscribers	693	392
Television and radio transmission	291	270
Cellular services	-	59
	4,368	**4,494**
Revenue from foreign operators		
Telephone	1,950	1,872
Telex, telegraph and other	174	237
Rent of telecommunications channels	80	91
	2,204	**2,200**
Other revenue	617	492
Total revenue	**17,958**	**13,462**

11. CHANGE IN METHOD OF SETTLEMENTS WITH DOMESTIC OPERATORS

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, 2003 is presented below:

	Six months ended June 30, 2003	
	As reported above	**Pro-forma**
Revenue from local operators: telephone - national	2,944	5,428
Charges by network operators - national	(918)	(3,402)

12. SEGMENT INFORMATION

During six months ended June 30, 2003, the Group operated in three industry segments: Telecommunications, Leasing and Banking and investing.

As a result of divestiture of business of RTC-Leasing and discontinuance of the Leasing and Banking and investing segments (refer to Note 3), 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 June 30, 2004 are presented in the condensed consolidated statement of income and the condensed consolidated balances sheet, respectively.

13. 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, is the ultimate owner of 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. No action with respect to the Group has so far been taken.

(b) 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. Total revenue from the Svyazinvest Group for the six months ended June 30, 2004 and 2003 were 8,151 and 4,693, respectively.

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. Total charges for telecommunication services from the Svyazinvest Group for the six months ended June 30, 2004 and 2003 were 3,137 and 364, respectively.

Tariffs for services between the Company and the Svyazinvest Group are materially affected by governmental regulation.

The Group made certain contributions to non-for-profit organizations which are companies of the Svyazinvest Group for 51 and 33 in the six months period ending June 30, 2004 and 2003, respectively.

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:

	June 30, 2004 (unaudited)	**December 31, 2003**
Short-term investments	7	16
Accounts receivable, net	2,569	2,244
Accounts payable	(453)	(192)

(c) RTComm.Ru

RTComm.Ru rents the Group's channels to carry internet traffic of its customers. Total revenue from RTComm.Ru for the six months ended June 30, 2004 was 196. Accounts receivable from and payable to RTComm.Ru as of June 30, 2004 were 98 and 7, respectively.

(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. Total revenue from the budget organizations for the six months ended June 30, 2004 and 2003 were 1,019 and 699, respectively.

The amounts of receivables and payables due from and to the Budget Organizations were as follows:

	June 30, 2004 (unaudited)	**December 31, 2003**
Accounts receivable, net	484	651
Accounts payable	-	(22)

(d) Other related party transactions

During the six months ended June 30, 2004 and 2003 the Group purchased services from ZAO Peter-Service related to previously acquired software for 26 and 7, respectively. Certain directors of the Group are directors of the company that controls ZAO Peter-Service.

During the six months ended June 30, 2004 and 2003 the Group acquired promissory notes of OAO Svyazbank for 750 and 7, respectively, and settled partially the promissory notes for 550 and nil, respectively. Effective interest rate was 7% and 5% per annum, respectively. Certain managers of the Group and OAO Svyazinvest are directors of OAO Svyazbank.

Included in short-term investments as of June 30, 2004 are liquid bills of exchange due from OAO Telecombank and OAO Svyazbank of 300 and 207, respectively, and short-term deposits in OAO Telecombank of 300.

14. CONTINGENCIES

a) 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 July 2004 the Accounting Chamber of 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.

b) Taxation environment

Russian tax legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years. However, management believes that adequate provision has been made for all material taxation liabilities existing as of June 30, 2004.

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. After June 30, 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, 2003.

15. SUBSEQUENT EVENTS

In November 2004 the Company entered into an agreement with IBM Corporation to implement a new billing system. Estimated cost of the billing system is USD 90 million (2,612 at the exchange rate as of June 30, 2004). The first stage of this project was prepaid in December 2004 by issuing promissory notes payable within 18 months in 18 monthly installments for total amount of USD 40 million (1,161 at the exchange rate as of June 30, 2004) including a discount of USD 2 million (58 at the exchange rate as of June 30, 2004). The implementation is expected to be finished in late 2006.

In July – September 2004, the Company purchased interest free Ruble and US dollar denominated promissory notes from RTC-Leasing for a total amount of 1,586 and 2,162, respectively. Face value of these notes is 1,621 and 2,225, respectively. Weighted average effective interest rate for Ruble and US dollar denominated notes is 10% and 6%, respectively. These notes mature in the period from November 2004 through July 2005.

The above investment in promissory notes from RTC-Leasing together with cash and deposits in Russian Industrial Bank (subsidiary of RTC-Leasing) of 2,123 represent 36% of the Group's current assets as of June 30, 2004. 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 in Russian Industrial Bank are fully recoverable.