OAO ROSTELECOM

**CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL ACCOUNTING STANDARD No. 34**

AS OF JUNE 30, 2005 AND FOR THE SIX-MONTH PERIOD THEN ENDED

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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 condensed consolidated interim financial statements set out on pages 4 to 23, 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

October 24, 2005

(In millions of Russian Rubles)

	Notes	June 30, 2005 (unaudited)	December 31, 2004
ASSETS			
Non-current assets			
Property, plant and equipment, net	5	44,592	45,987
Goodwill		9	9
Investments in associates	6	2,411	2,511
Long-term financial investments	7	272	264
Other non-current assets		17	17
Total non-current assets		**47,301**	**48,788**
Current assets			
Inventory		784	614
Accounts receivable, net	8	6,329	5,613
Short-term investments	7	6,302	8,150
Cash and cash equivalents		6,802	1,255
Current assets		**20,217**	**15,632**
Total assets		**67,518**	**64,420**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital		100	100
Retained earnings		51,498	50,738
Total equity		**51,598**	**50,838**
Non-current liabilities			
Interest bearing loans - net of current portion	10	267	777
Non-current accounts payable		237	232
Non-current portion of vendor financing payable		-	353
Deferred tax liability		5,530	5,954
Total non-current liabilities		**6,034**	**7,316**
Current liabilities			
Accounts payable and accrued expenses		5,313	3,299
Taxes payable		1,281	1,154
Vendor financing payable	11	2,005	706
Current portion of interest bearing loans	10	1,287	1,107
Total current liabilities		**9,886**	**6,266**
Total liabilities		**15,920**	**13,582**
Total equity and liabilities		**67,518**	**64,420**

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, 2005 (unaudited)	2004 (unaudited, as restated, see Note 3)
Revenue			
Local operators	12	12,285	10,732
Subscribers	12	4,112	4,368
Foreign operators	12	2,302	2,204
Other	12	953	617
Total revenue		**19,652**	**17,921**
Operating expenses			
Wages, salaries, other benefits and payroll taxes		(2,905)	(2,182)
Depreciation	5	(3,649)	(3,649)
Charges by network operators – international		(3,224)	(3,056)
Charges by network operators – national		(4,146)	(3,790)
Administration and other costs		(1,661)	(1,584)
Taxes other than on income		(226)	(309)
Repairs and maintenance		(394)	(367)
Bad debt recovery /(expense)		56	(91)
Loss on sale of property, plant and equipment		(362)	(73)
Total operating expenses		**(16,511)**	**(15,101)**
Operating profit		**3,141**	**2,820**
Gain from associates		26	74
Interest expense		(17)	(11)
Interest income		423	241
Income from sale of investments	13	193	-
Other non-operating income, net		110	8
Foreign exchange (loss) /gain, net		(146)	56
Profit before tax		**3,730**	**3,188**
Current tax charge		(1,334)	(1,429)
Deferred tax benefit		424	652
Income tax expense		**(910)**	**(777)**
Profit for the period		**2,820**	**2,411**
		Rubles	**Rubles**
Earnings per share attributable to equity holders of the parent – basic and diluted		**2.90**	**2.48**

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, 2005 (unaudited)	2004 (unaudited, as restated, see Note 3)
Cash flows from operating activities			
Income before tax		3,730	3,188
Adjustments to reconcile net income before tax to cash generated from operating activities:			
Depreciation	5	3,649	3,649
Bad debt (recovery) /expense		(56)	91
Gain from associates		(26)	(74)
Loss on sale of property, plant and equipment		362	73
Gain from sale of investments	13	(193)	-
Net interest and other non-operating income		(516)	(237)
Other non-monetary income		-	(3)
Foreign exchange loss /(gain), net		146	(56)
Changes in net working capital:			
(Increase) /decrease in accounts receivable		(21)	351
Decrease /(increase) in inventories		27	(13)
Increase in payables and accruals		235	138
Cash generated from operations		**7,337**	**7,107**
Interest paid		(68)	(42)
Interest received		316	157
Income tax paid		(1,668)	(1,528)
Net cash provided by operating activities		**5,917**	**5,694**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,900)	(1,360)
Proceeds from sale of property, plant and equipment		179	21
Purchase of financial assets, other than for trading purposes and available-for-sale investments	2, 7	(6,434)	(12,230)
Proceeds from sale of financial assets, other than for trading purposes and available-for-sale investments, net of direct costs	2, 7	8,577	10,820
Dividends received from associates		70	45
Repayment of lease obligations		(10)	(520)
Cash acquired as a result of obtaining control over GlobalTel	4	138	-
Cash disposed of on discontinuance of segments		-	(123)
Net cash received from /(used in) investing activities		**620**	**(3,347)**
Cash flows from financing activities			
Drawdown of interest bearing loans		-	163
Repayment of interest bearing loans	10	(583)	(1,349)
Repayment of vendor financing payable	11	(360)	-
Dividends paid		(48)	(5)
Net cash used in financing activities		**(991)**	**(1,191)**
Effect of exchange rate changes on cash and cash equivalents		**1**	**(3)**
Net increase in cash and cash equivalents		**5,547**	**1,153**
Cash and cash equivalents at beginning of period		**1,255**	**2,529**
Cash and cash equivalents at end of period		**6,802**	**3,682**

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

(In millions of Russian Rubles)

		Attributable to equity holders of the parent		
	Note	**Share capital**	**Retained earnings**	**Total**
Balance at December 31, 2003 (as previously reported)		**100**	**48,757**	**48,857**
Restatement of revenues and expenses from local operators	3	-	(709)	(709)
Change in method of accounting for post-employee benefits	3	-	(178)	(178)
Balance at December 31, 2003 (as restated)		**100**	**47,870**	**47,970**
Profit for the period (unaudited, as restated)	3	-	2,411	2,411
Dividends		-	(1,430)	(1,430)
Balance at June 30, 2004 (unaudited, as restated)	**3**	**100**	**48,851**	**48,951**
Balance at December 31, 2004		**100**	**50,738**	**50,838**
Effect of obtaining control over GlobalTel	4		(274)	(274)
Profit for the period (unaudited)		-	2,820	2,820
Dividends	9	-	(1,786)	(1,786)
Balance at June 30, 2005 (unaudited)		**100**	**51,498**	**51,598**

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 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 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, 2005, 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 as permitted by IAS No. 34. The condensed consolidated interim financial statements should be read in conjunction with the complete consolidated financial statements for the year ended December 31, 2004. The management of the Group believes that the notes to the condensed consolidated interim financial statements are sufficient to provide an explanation of events and transactions to enable users to understand the changes in financial position and performance of the Group since year end. 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.

As discussed in consolidated financial statements for the year ended December 31, 2004, starting January 1, 2005, the Group applied provisions of the following revised and new standards:

- 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”.

Upon application of revised IAS No. 39, the Group reconsidered classification of its investments in liquid bills of exchange in line with the provisions of this revised Standard. Accordingly, the Group re-represented liquid bills of exchange as loans and receivables in the consolidated balance sheet as of December 31, 2004. Reclassification of liquid bills did not have a material impact on the Group’s results of operations, financial position and cash flows for all periods presented.

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 the standards and interpretations prescribed by the IASB.

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 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.

(In millions of Russian Rubles unless otherwise stated)

3. RESTATEMENT OF PREVIOUSLY REPORTED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2004

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 for the six months ended June 30, 2004, and respective accounts receivable and payable as of December 31, 2003 as follows:

	6 months ended June 30, 2004 (unaudited)
Decrease in revenue from local operators	(37)
Decrease in charges by network operators – national	32
Decrease in operating profit and income before tax and minority interest	**(5)**
Increase in income tax expense	1
Decrease in income after taxation	**(4)**

	June 30, 2004 (unaudited)	**December 31, 2003**
Decrease in total equity	(714)	(709)

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 Group recorded a liability of 178 and corresponding reduction of retained earnings as of December 31, 2003. The effect of change of accounting method for certain post-employment benefits on the consolidated statement of income for the six months ended June 30, 2004 is decrease in profit after taxation by 2.

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 the six months ended June 30, 2004 and the year ended December 31, 2003.

(In millions of Russian Rubles unless otherwise stated)

The reconciliation of earnings per share, as restated, and earnings per share previously reported for the 6 months ended June 30, 2004 is as follows:

	Six months ended June 30, 2004 (undaudited)
Total earnings per share, as previously reported	2.23
Restatement of revenues and expenses from local operators	(0.01)
Application of the 'two-class' method	0.26
Total earnings per share, as restated	**2.48**

4. SUBSIDIARIES

The accompanying consolidated financial statements include the assets, liabilities and results of operations of Rostelecom and the following of its subsidiaries:

Subsidiary	**Country of registration**	**Effective share of the Group as of June 30, 2005 and December 31, 2004**
ZAO Westelcom ("Westelcom")	Russia	100%
ZAO GlobalTel ("GlobalTel")	Russia	51%*

* In the consolidated balance sheet of the Company as of December 31, 2004 GlobalTel was accounted for under the equity method as a jointly controlled entity and included in "Investments in associates".

The Group owns 51 per cent of the ordinary shares of GlobalTel, a Russian closed joint stock company since inception of the latter. 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 per cent of GlobalTel. The charter of GlobalTel, its by-laws and the way GlobalTel historically conducted its operations provided 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 cause of its business. Because effective control of GlobalTel did not rest with the Group, management accounted for the investment in GlobalTel under the equity method. .The Group did not recognize its share in losses of GlobalTel for the six months ended June 30, 2004 as the accumulated share in losses of GlobalTel exceeded the investment of the Group in GlobalTel. Loans and other accounts receivable from GlobalTel were fully provided for as a loss from GlobalTel. Any receipts from GlobalTel in respect of the loans and receivable were recognized as gain from associates in the period they were received.

(In millions of Russian Rubles unless otherwise stated)

On April 25, 2005 the shareholders' meeting of GlobalTel approved the new charter which provides preferred rights to the Group compared to the other shareholder, including abolishment of the other shareholder's veto and substantive participation rights. The Group assessed that these changes allowed it to obtain control over GlobalTel, thus, converting it from jointly controlled entity to a subsidiary of the Group. Consequently, the results of operations and financial position of GlobalTel were consolidated in the financial statements of the Group in accordance with IAS 27, "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", prospectively beginning from April 25, 2005.

The obtaining control over GlobalTel was accounted for using the purchase method, in accordance with provisions of IFRS 3, "Business combinations". Accordingly, the results of operations and financial position of GlobalTel were consolidated by the Group beginning from April 25, 2005. As of June 30, 2005, the Group has not finalized the purchase price allocation for obtaining control over GlobalTel. Management expects to finalize such purchase price allocation before December 31, 2005. The following table summarizes on a provisional basis the fair values of net assets acquired at the date of obtaining control:

	April 25, 2005
Property, plant and equipment	885
Inventories	197
Trade and other accounts receivable	127
Other current assets	169
Cash	138
Short-term debt (Loral)	(221)
Vendor financing (Globalstar)	(1,201)
Other current liabilities	(257)
Lease liabilities	(111)
Provisional fair value of net assets acquired	(274)
Share in accumulated deficit of GlobalTel	274
Total investment	-

In accordance with Russian legislation, joint stock companies must maintain a level of equity (net assets) that is greater than the charter capital. In the event that a company's net assets, as determined under Russian accounting legislation, fall below certain minimum levels, specifically below zero, the company can be forced to liquidate. GlobalTel has had, and continue to have, negative equity as reported in its Russian statutory financial statements. Management believes that the risk of the initiation of statutory liquidation procedures or other material adverse actions is remote.

(In millions of Russian Rubles unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT, NET

The net book value of property, plant and equipment as of June 30, 2005 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost or valuation					
At January 1, 2005	22,507	123,287	24,470	4,313	174,577
Additions	-	-	-	1,914	1,914
Additions with acquired subsidiaries	-	1,457	23	100	1,580
Disposals	(423)	(2,970)	(517)	(4)	(3,914)
Transfers	28	313	1,094	(1,435)	-
At June 30, 2005 (unaudited)	22,112	122,087	25,070	4,888	174,157
Accumulated Depreciation					
At January 1, 2005	(15,242)	(95,634)	(17,714)	-	(128,590)
Additions with acquired subsidiaries	-	(687)	(8)	-	(695)
Depreciation expense	(244)	(2,517)	(888)	-	(3,649)
Disposals	299	2,619	451	-	3,369
At June 30, 2005 (unaudited)	(15,187)	(96,219)	(18,159)	-	(129,565)
Net book value at December 31, 2004	7,265	27,653	6,756	4,313	45,987
Net book value at June 30, 2005 (unaudited)	6,925	25,868	6,911	4,888	44,592

Interest amounting to 73 and 161 was capitalized in property, plant and equipment for the six months ended June 30, 2005 and for the year ended December 31, 2004, respectively. The capitalization rates used to determine the amount of borrowing costs eligible for capitalization were 5.5% and 6.1%, respectively.

Property, plant and equipment with a carrying value of 1,465 and 2,066 were pledged in relation to loan agreements entered into by the Group as of June 30, 2005 and December 31, 2004, respectively. Included in pledged property, plant and equipment as of June 30, 2005 is also the Satellite Gateway equipment with a carrying value of 603 pledged in connection with vendor financing received from Globalstar L.P. (minority shareholder of GlobalTel). Currently, GlobalTel is in default on this vendor financing (see also Note 11).

(In millions of Russian Rubles unless otherwise stated)

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates as of June 30, 2005 and December 31, 2004 were as follows:

Associate	Main activity	Voting share capital, %	2005 Carrying amount	2004 Carrying amount
ZAO Telmos	Telecommunication services	- (2004: 20)	-	197
OAO RTComm.RU	Internet services	31	183	156
Golden Telecom, Inc., USA ("Golden Telecom")	Telecommunication services	11.06 (2004: 11.08)	2,125	2,067
OAO MMTS-9	Telecommunication services	49	70	60
GlobalTel	Satellite telecommunications	- (2004: 51)	-	-
Other	Various		33	31
Total investments in associates			**2,411**	**2,511**

In March 2005, the Group sold its 20% interest in ZAO Telmos to AFK "Systema" for a cash payment of 235.

In April 2005, according to the changed charter of GlobalTel, the Group obtained control over GlobalTel and consolidated the latter in the accompanying financial statements as of June 30, 2005 (refer to Note 4).

In April 2005 the Group acquired 19% shares of Svyazintek for a cash payment of less than 1. In August 2005 Svyazintek issued additional ordinary shares and the Group contributed an additional 22 into Svyazintek in order to maintain its share in equity of Svyazintek. The main activity of Svyazintek is design and implementation of integrated billing systems. Investment in Svyazintek is accounted under equity method as the Group has significant influence over Svyazintek and is included in other investments in associates as of June 30, 2005.

7. OTHER INVESTMENTS

In February 2005, the Group sold its 5% interest in MTT with a carrying value of 36 to AFK "Systema" for a cash payment of 180. As of December 31, 2004 investment in MTT with carrying amount of 36 was included in long-term financial investments.

In March 2005, the Group sold its 45% interest in ZAO Telecom-Center with a carrying value of 50 to OOO "Orbita", which is unrelated party, for a cash payment of 68. As of December 31, 2004 investment in ZAO Telecom-Center was included in short-term investments in the accompanying balance sheet.

Short-term investments as of June 30, 2005 include liquid bills of exchange of 3,103, which are classified as loans and receivables and stated at amortized cost using the effective interest rate method and deposit certificates of 3,199, which are stated at amortized cost using the effective interest rate method (see also Note 2).

(In millions of Russian Rubles unless otherwise stated)

8. ACCOUNTS RECEIVABLE

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

	June 30, 2005 (unaudited)	December 31, 2004
Trade accounts receivable	5,270	5,303
Less: allowance for doubtful accounts	(1,166)	(1,774)
Trade accounts receivable, net	4,104	3,529
Prepayments	348	396
Prepaid taxes	1,388	1,503
Other accounts receivable	1,032	695
Less: allowance for doubtful accounts	(543)	(510)
Other accounts receivable, net	2,225	2,084
Total accounts receivable, net	**6,329**	**5,613**

9. SHAREHOLDERS' EQUITY

On June 25, 2005, the Annual General Shareholders' Meeting declared dividends of 1,786 in respect of 2004. Ordinary shares dividends amounted to 1.46 Ruble per share (1,064) and dividends on the preferred shares amounted to 2.97 Ruble per share (722).

10. INTEREST BEARING LOANS

The interest bearing loans as of June 30, 2005 and December 31, 2004 were as follows:

	June 30, 2005 (unaudited)	December 31, 2004
Maturity		
Current portion of interest bearing loans	**1, 287**	**1,107**
Between one to two years	140	570
Between two to three years	68	109
Between three to four years	59	72
Between four to five years	-	26
Non-current portion of interest bearing loans	**267**	**777**
Total interest bearing loans	**1,554**	**1,884**

As of June 30, 2005 and December 31, 2004, interest bearing loans, which are denominated in foreign currencies are summarized as follows:

	June 30, 2005 (unaudited)	December 31, 2004
US Dollars (US$)	1,213	1,457
Japanese Yen (JPY)	147	188
EURO	194	239
Total interest bearing loans	**1,554**	**1,884**

During the six months ended June 30, 2005, the Group made the following payments in accordance with the loan agreements:

- US$ 0.3 million (9) on a credit agreement between Rostelecom and Japanese Bank for International Cooperation (JBIC) entered into in March 2004. The loan was provided by two tranches with interest rate of 4.67% and LIBOR plus 0.55%, respectively. Total outstanding amount as of June 30, 2005 is US$ 2 million (67). 19 are included in current portion of long-term debt.

- US$ 1.2 million (34) 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, 2005 is US$ 0.1 million (2), which are included in current portion of long-term debt.

- US$ 17 million (478) on promissory notes issued to Alfa-bank in 2003 with interest rate of 5.94% per annum. Total outstanding amount as of June 30, 2005 is US$ 32 million (915), which are included in current portion of long-term debt.

- EURO 0.7 million (25) on a credit agreement between Rostelecom and ING BHF-BANK entered into in April 2004. The interest rate equals EURIBOR plus 0.875 % per annum. Total outstanding amount as of June 30, 2005 is EURO 6 million (194). 48 are included in current portion of long-term debt.

- JPY 15 million (4) within a credit line provided by Vneshtorgbank with maximum amount of JPY 105 million open through February 25, 2005. The interest rate equals 5.75% per annum. Total outstanding amount as of June 30, 2005 is JPY 60 million (16). 8 are included in current portion of long-term debt. The principal should be repaid in four semiannual installments from August 2005 through February 2007.

- 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, 2005 is JPY 503 million (131). 65 are included in current portion of long-term debt. The principal should be repaid in four semiannual installments from August 2005 through February 2007.

Interest bearing loans as of June 30, 2005 include loans of GlobalTel from Loral Space and Communications Corporations (“Loral”), a related party to Globalstar L.P., with the total amount of 229 (US$ 7 million). GlobalTel is in default in respect of these loans. As no waiver has been obtained from Loral, these loans are classified as current in the accompanying consolidated balance sheet as of June 30, 2005. The loans do not provide for any collateral.

11. VENDOR FINANCING PAYABLE

Included in vendor financing payable balance as of June 30, 2005 is vendor financing of 1,254 (US$ 43 million) payable by GlobalTel to Globalstar L.P., which is the minority shareholder of GlobalTel, for the purchase of three gateways and associated equipment and services (see also Notes 4 and 5). Globalstar L.P. has a lien over this equipment until the liability is fully paid.

(In millions of Russian Rubles unless otherwise stated)

The initial vendor financing repayment schedule (denominated in US$) was as follows:

	Rubles
2004	461
2005	200
2006	200
2007	200
2008	117
Total	**1,178**

GlobalTel is in default in respect of payments in 2004 and 2005 and has not obtained a waiver from Globalstar L.P. As a result, the whole balance of 1,178 (US$ 41,078) is classified as current in the accompanying consolidated balance sheet as of June 30, 2005. Penalty interest in amount of 76, accrued for each day of delay at the rate of 10% p.a., is included in vendor financing payable in the accompanying balance sheet.

As of June 30, 2005, Globalstar L.P. or its legitimate successors have not demanded immediate repayment of the defaulted vendor financing and loans. Management believes that if such immediate repayment is demanded, it would not have a material adverse effect on the Group's results of operations, financial position and operating plans.

Vendor financing payable as of June 30, 2005 also includes promissory notes of 751 issued to IBM Corporation in connection with implementation of the new billing system. These promissory notes mature in June 2006 and bear interest rate of 6% p.a.

12. REVENUE

Revenue comprised the following for six months ended June 30, 2005 and 2004:

	Six months ended June 30, 2005 (unaudited)	**Six months ended June 30, 2004 (unaudited, as restated, see Note 3)**
Revenue from local operators		
Telephone – international	3,126	2,920
Telephone – national	7,161	6,528
Other income from local operators	1,998	1,284
	12,285	**10,732**
Revenue from subscribers		
Telephone – international	1,317	1,460
Telephone – national	1,849	1,924
Rent of telecommunications channels to subscribers	655	693
Television and radio transmission	291	291
	4,112	**4,368**
Revenue from foreign operators		
Telephone	2,010	1,950
Telex, telegraph and other	137	174
Rent of telecommunications channels	155	80
	2,302	**2,204**
Other revenue	953	617
Total revenue	**19,652**	**17,921**

(In millions of Russian Rubles unless otherwise stated)

13. INCOME FROM SALE OF INVESTMENTS

During the six months ended June 30, 2005 the Group sold its investments in the following companies (refer also to Notes 6 and 7):

	Proceeds from sale	Carrying value of investments	Gain
ZAO Telmos	235	(204)	31
ZAO Telecom – Center	68	(50)	18
OAO MTT	180	(36)	144
Total	**483**	**(290)**	**193**

14. SEGMENT INFORMATION

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, 2005 are presented in the condensed consolidated statement of income and the condensed consolidated balances sheet, respectively.

15. 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, 2005 and 2004 were 8,692 and 8,094, 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, 2005 and 2004 were 3,328 and 3,102, respectively.

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

(In millions of Russian Rubles unless otherwise stated)

The Group made certain contributions to non-for-profit organizations which are companies of the Svyazinvest Group for and 116 and 51 in the six months period ending June 30, 2005 and 2004, 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, 2005 (unaudited)	**December 31, 2004**
Short-term investments	2	5
Accounts receivable, net	1,153	1,218
Accounts payable	(87)	(302)
Payable to pension fund (included in compensation related accruals)	(241)	(184)

(c) Transactions with the Government and government owned companies

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, 2005 and 2004 were 1,034 and 1,019, respectively.

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

	June 30, 2005 (unaudited)	**December 31, 2004**
Accounts receivable, net	508	286
Accounts payable	(12)	(24)

The Company purchases electricity from OAO Energy and Electrification Unified Energy System (RAO UES), a monopoly of electricity provision in which Government of the Russian Federation controlled 53%. Total purchases amounted to 140 and 128 in the six months period ended June 30, 2005 and June 30, 2004, respectively. Accounts payable to RAO UES were nil as of June 30, 2005 and December 31, 2004.

Transactions with other Government controlled organizations were not significant and occurred in the normal course of business.

(In millions of Russian Rubles unless otherwise stated)

(d) 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. Total revenue from these entities for the six months ended June 30, 2005 and 2004 were 429 and 607, respectively. Total charges for services from investees for the six months ended June 30, 2005 and 2004 were 65 and 91, respectively.

The amounts of receivables and payables due from these entities were as follows:

	June 30, 2005 (unaudited)	December 31, 2004
Accounts payable and accrued expenses	(58)	(29)
Accounts receivable, net	404	235

(e) Directors' remuneration

During the year ended December 31, 2004 and six months ended June 30, 2005 the Board of Directors consisted of the following members:

Until June 26, 2004	Until June 25, 2005	Since June 25, 2005
Yashin V.N.	Yashin V.N.	Yashin V.N.
Avdiyants S.P.	Avdiyants S.P.	Avdiyants S.P.
Belov V.Y.	Belov V.Y.	Degtyarev V.V.
Yemelianov N.P.	Degtyarev V.V.	Erokhin D.E.
Kuznetsov S.I.	Erokhin D.E.	Kiselev A.N.
Lopatin A.V.	Panchenko S.N.	Kuznetsov S.I.
Panchenko S.N.	Polischuk V.A.	Ragozina I.M.
Polischuk V.A.	Ragozina I.M.	Slipenchuk M.V.
Ragozina I.M.	Slipenchuk M.V.	Slizen V.A.
Slipenchuk M.V.	Finger G.M.	Terentieva N.A.
Yurchenko E.V.	Yurchenko E.V.	Chechelnitsky E.A.

For the six months ended June 30, 2005 and 2004, the total remuneration of the directors amounted to 17 and 13, respectively.

(f) Other related party transactions

During the six months ended June 30, 2005 and 2004 the Group purchased services from ZAO Peter-Service related to previously acquired software for 2 and 26, respectively. Certain directors of the Group are directors of the company that controls ZAO Peter-Service.

During the six months ended June 30, 2005 and 2004 the Group acquired promissory notes of OAO Svyazbank for 800 and 750, respectively, and settled partially the promissory notes for 7 and 550, respectively. Certain managers of the Group and OAO Svyazinvest are directors of OAO Svyazbank.

Included in short-term investments as of June 30, 2005 and December 31, 2004 are liquid bills of exchange due from OAO Svyazbank of 1,383 and 590, respectively, and short-term deposits in OAO Svyazbank of 500 and 900, respectively.

16. COMMITMENTS AND 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.

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, 2005.

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) 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.

e) 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.

In addition to industry restructuring plans, the Government announced plans to privatize Svyazinvest in 2005 or 2006. Effects of the industry reform will be reflected in the Group's financial statements as they become known and estimable.

f) Capital Commitments

As of June 30, 2005, contractual commitments of the Group for the acquisition of property, plant and equipment amounted to 7,275.

17. SUBSEQUENT EVENTS

In July 2005 the Company repaid the final installment on a credit agreement with Sumitomo Corporation.

In October 2005 the Federal Taxation Service started comprehensive tax inspection of the Company covering the periods of 2002 and 2003. At the date of approval of these condensed consolidated interim financial statements the inspection was not completed and consequently management cannot estimate the effect, if any, it might have on the Group's results of operations and financial position. Accordingly, no accrual has been made for the results of the inspection in the accompanying condensed consolidated interim financial statements.

In October 2005 the Company sold its 44% share in ZAO Teleport TP to OOO "Orbita" for a cash payment of 13. As of June 30, 2005 and December 31, 2004, investments in ZAO Teleport TP were included in other investments in associates in the accompanying balance sheet. Sale of Teleport TP to OOO "Orbita" resulted in a gain of 13.

In October 2005 the Board of Directors of the Company approved acquisition of up to 100% ordinary shares of ZAO "Globus Telecom". The main business of Globus Telecom is provision of telecommunication services.