Open Joint Stock Company
“Sibirtelecom”

Consolidated Financial Statements

For the year ended December 31, 2005
with Independent Auditor’s Report

OJSC “Sibirtelecom”

Consolidated Financial Statements

For the year ended December 31, 2005

Contents

Ernst & Young

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Independent Auditors' Report

To the Shareholders and Board of Directors of OJSC "Sibirtelecom"

1. We have audited the accompanying consolidated balance sheet of OJSC "Sibirtelecom" (a Russian open joint-stock company - hereinafter "the Company"), as of December 31, 2005, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as discussed in paragraphs 3 and 4, we conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As described in Note 2 "Basis of Presentation of the Financial Statements" and Note 5 "Property, Plant and Equipment", the Company transitioned to International Financial Reporting Standards (IFRS) as of January 1, 2003 and applied an exemption in IFRS 1, "First-time Adoption of International Financial Reporting Standards", which permits to measure property, plant and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost. However, we were not able to satisfy ourselves as to whether the carrying amounts of property, plant and equipment as of January 1, 2003 represented fair value. Accordingly, we were unable to determine whether the carrying value of property, plant and equipment as of December 31, 2005 and 2004 complies with the requirements of IFRS. Further, we were unable to satisfy ourselves as to the related (i) depreciation expense for the years presented and (ii) the deferred tax balances as of December 31, 2005 and 2004 and deferred tax expense for the years presented.

4. As described in Note 2 "Basis of Presentation of the Financial Statements" and Note 22 "Pensions and Other post-employment benefit plans", the Company provides certain long term benefits to its employees. The Company engaged an independent actuary to estimate its obligations regarding such benefits as of December 31, 2005, 2004 and 2003. Management did not provide us with sufficient support for the actuarial assumptions and significant underlying data used. We were therefore unable to satisfy ourselves with respect to the pension obligation and other post-employment benefit plans as of December 31, 2005, 2004 and 2003 the related expense for the defined benefit pension and other post-employment plans for the years presented, and the related disclosures.

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5. In our opinion, except for the effects on the financial statements of such adjustments, if any, which might have been determined to be necessary had we been able to satisfy ourselves as to the matters referred to in paragraphs 3 and 4 above, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OJSC "Sibirtelecom" as of December 31, 2005, and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

May 29, 2006

OJSC "Sibirtelecom"

Consolidated Balance Sheet

At December 31, 2005

(in thousands roubles)

	Notes	2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment, net	**5**	31,044,935	25,668,599
Intangible assets and goodwill, net	**6**	2,725,783	2,205,958
Investments in associates, net	**8**	50,584	35,735
Long-term investments, net	**9**	76,599	72,360
Long-term accounts receivable and other assets	**10**	85,805	178,721
Long-term advances given, net	**11**	670,538	319,862
Total non-current assets		**34,654,244**	**28,481,235**
Current assets			
Inventories	**12**	538,667	551,305
Accounts receivable, net	**13**	1,853,126	1,753,131
Current income tax receivable		34,702	9,808
Short-term investments	**9**	148,197	161,901
Other current assets, net	**14**	2,279,516	1,978,585
Cash and cash equivalents	**15**	533,131	438,573
Total current assets		**5,387,339**	**4,893,303**
TOTAL ASSETS		**40,041,583**	**33,374,538**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	**17**	3,541,131	3,541,131
Unrealized gain on available-for-sale investments		103,403	12,712
Retained earnings		13,522,380	12,114,153
Total equity attributable to equity holders of the parent		**17,166,914**	**15,667,996**
Minority interest		47,853	10,635
Total equity		**17,214,767**	**15,678,631**
Non-current liabilities			
Long-term borrowings	**18**	9,290,836	5,328,512
Long-term finance lease obligations	**19**	570,507	877,756
Pension liabilities	**22**	1,665,259	829,618
Long term taxes payable		27,311	55,806
Deferred revenue		221,405	250,029
Deferred income tax liabilities	**27**	1,559,309	1,778,494
Total non-current liabilities		**13,334,627**	**9,120,215**
Current liabilities			
Accounts payable, accrued expenses and advances received	**20**	3,583,403	2,599,320
Payables to OJSC "Rostelecom"		161,339	158,780
Income tax payable		35,930	179,099
Other taxes payable	**21**	896,206	908,606
Dividends payable		37,609	69,214
Short-term borrowings	**18**	738,555	1,651,020
Current portion of long-term borrowings	**18**	3,727,359	2,642,567
Current portion of long-term finance lease obligations	**19**	311,788	367,086
Total current liabilities		**9,492,189**	**8,575,692**
Total liabilities		**22,826,816**	**17,695,907**
TOTAL EQUITY AND LIABILITIES		**40,041,583**	**33,374,538**

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

OJSC "Sibirtelecom"

Consolidated Statement of Operations

For the year ended December 31, 2005

(in thousands roubles)

	Notes	2005	2004
Revenues	**23**	27,432,139	22,602,408
Wages, salaries, other benefits and payroll taxes		(10,058,219)	(7,951,400)
Goodwill impairment provision	**6**	(79,768)	–
Depreciation and amortization	**5,6**	(3,299,837)	(2,462,521)
Materials, repairs and maintenance, utilities		(2,776,373)	(2,106,696)
Taxes other than income tax		(452,821)	(398,800)
Interconnection charges		(3,623,509)	(3,368,925)
Provision for impairment of receivables	**13**	66,234	(297,092)
Loss on disposal of property, plant and equipment		(186,059)	(70,112)
Other operating expenses, net	**24**	(3,642,640)	(2,492,561)
Operating profit		**3,379,147**	**3,454,301**
Share of result of associates	**8**	15,439	6,766
Interest expense, net	**25**	(1,004,763)	(785,204)
Gain on sale of subsidiaries, associates and other investments, net	**26**	86,052	106,464
Foreign exchange gain (loss), net		(45,121)	52,987
Other income and expenses, net		(8,691)	–
Profit before income tax		**2,422,063**	**2,835,314**
Income tax expense	**27**	(806,819)	(940,229)
Profit for the year		**1,615,244**	**1,895,085**
Attributable to:			
Equity holders of the parent		1,625,786	1,893,662
Minority interests		(10,542)	1,423
		1,615,244	**1,895,085**
Earnings per share			
- basic and diluted, for profit for the year attributable to equity holders of the parent	**28**	0.10	0.11

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

OJSC "Sibirtelecom"

Consolidated Statement of Cash Flow

For the year ended December 31, 2005

(in thousands roubles)

	Note	2005	2004
Cash flows from operating activities			
Profit before income tax		2,422,063	2,835,314
Adjustments for			
Foreign exchange loss (gain), net		45,121	(52,987)
Depreciation and amortization	**5,6**	3,299,837	2,462,521
Loss on disposal of property, plant and equipment		186,059	70,112
Share of result of associates	**8**	(15,439)	(6,766)
Gain from sale of subsidiaries, associates and other investments	**26**	(86,052)	(106,464)
Interest expense, net	**25**	1,004,763	785,204
Provision for impairment of receivables	**13**	(66,234)	297,092
Goodwill impairment provision	**6**	79,768	–
Operating cash flows before working capital changes		**6,869,886**	**6,284,026**
Increase in accounts receivable		(31,622)	(758,639)
Increase in other current assets		(142,403)	(557,287)
Decrease (increase) in inventories		16,588	(5,134)
Increase in accounts payable and accrued expenses		802,464	108,979
(Decrease) increase in taxes payable other than income tax		(34,392)	137,515
Increase in pension obligations		835,641	195,016
Cash flows generated from operations		**8,316,162**	**5,404,476**
Interest paid		(1,379,469)	(1,143,880)
Income tax paid		(1,223,527)	(918,684)
Net cash flows from operating activities		**5,713,166**	**3,341,912**
Cash flows from investing activities			
Purchase of property, plant and equipment		(8,244,560)	(6,895,334)
Purchase of intangible assets		(426,772)	(349,983)
Purchase of Oracle E-Business Suite software		(138,975)	–
Purchase of Amdocs Billing software		(199,682)	–
Purchase of subsidiaries, net of cash acquired		(153,095)	(46,175)
Purchase of investments and other assets		(66,591)	–
Proceeds from disposal of investments and other assets		325,380	267,053
Proceeds from sales of property, plant and equipment		41,784	7,582
Interest received		72,274	39,535
Dividends received		2,340	9,629
Net cash flows used in investing activities		**(8,787,897)**	**(6,967,693)**
Cash flows from financing activities			
Proceeds from borrowings		4,393,122	5,281,727
Repayment of borrowings		(4,793,779)	(3,636,460)
Proceeds from debt securities issued		4,939,089	2,300,000
Repayment of debt securities		(100,000)	–
Repayment of finance lease obligations		(368,521)	(496,182)
Repayment of vendor financing obligations		(37,483)	(186,958)
Repayment of promissory notes for Amdocs Billing Software		(433,465)	–
Proceeds from promissory notes		268,000	456,514
Repayment of promissory notes		(450,000)	(23,726)
Proceeds from other non-current liabilities		1,490	11,857
Dividends paid		(248,618)	(250,363)
Dividends paid to minority		(546)	–
Net cash flows from financing activities		**3,169,289**	**3,456,409**
Effect of changes in currency exchange rates		–	**130**
Net (decrease) increase in cash and cash equivalents		**94,558**	**(169,242)**
Cash and cash equivalents at the beginning of the year		**438,573**	**607,685**
Cash and cash equivalents at the end of the year		**533,131**	**438,573**

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

OJSC "Sibirtelecom"

Consolidated Statement of Changes in Equity

For the year ended December 31, 2005

(in thousands roubles)

	Note	Attributable to equity holders of the parent							Minority interests	Total equity
		Share capital		Unrealized gain on available-for-sale investments	Retained earnings (before adjustment)	Correction of error	Retained Earnings (adjusted)	Total		
		Preference shares	Ordinary shares							
Balance at December 31, 2003	**2**	**869,371**	**2,671,760**	**54,746**	**11,279,593**	**(774,047)**	**10,505,546**	**14,101,423**	**6,721**	**14,108,144**
Profit for the year					2,027,558	(133,896)	1,893,662	**1,893,662**	1,423	1,895,085
Dividends to equity holders of the parent					(253,209)		(253,209)	**(253,209)**		**(253,209)**
Unrealized gain on available-for-sale investments				5,742				**5,742**		**5,742**
Realized gain on investments sold				(47,776)				**(47,776)**		**(47,776)**
Minority interests arising on acquisition of subsidiary									5,761	**5,761**
Acquisition of minority interests in existing subsidiaries					(31,846)		(31,846)	**(31,846)**		**(31,846)**
Disposal of minority interests due to disposal of subsidiaries									(2,844)	**(2,844)**
Dividends of subsidiaries to minority shareholders									(426)	**(426)**
Balance at December 31, 2004	**2**	**869,371**	**2,671,760**	**12,712**	**13,022,096**	**(907,943)**	**12,114,153**	**15,667,996**	**10,635**	**15,678,631**
Profit for the year					2,461,427	(835,641)	1,625,786	**1,625,786**	(10,542)	**1,615,244**
Dividends to equity holders of the parent	**29**				(217,559)		(217,559)	**(217,559)**		**(217,559)**
Unrealized gain on available-for-sale investments				90,691				**90,691**		**90,691**
Dividends of subsidiaries to minority shareholders									(546)	**(546)**
Minority interests arising on acquisition of subsidiary									48,306	**48,306**
Balance at December 31, 2005		**869,371**	**2,671,760**	**103,403**	**15,265,964**	**(1,743,584)**	**13,522,380**	**17,166,914**	**47,853**	**17,214,767**

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

1. General Information

Authorization of Accounts

The consolidated financial statements of OJSC “Sibirtelecom” and its subsidiaries – (hereinafter “the Company”) for the year ended December 31, 2005 were authorized for issue by the General Director and the Chief Accountant of the Company on May 26, 2006.

The Company

The Company is an open joint stock company incorporated in accordance with the laws of the Russian Federation.

The registered office of the Company is in the city of Novosibirsk (the Russian Federation), 630099, 53 Maxim Gorky st.

The Company’s principal activity is providing telephone services (including local, long-distance and international calls), telegraph, data transmission services, rent of communication channels and wireless communication services on the territory of 11 regions of the Russian Federation.

Open joint-stock company Svyazinvest, controlled by the Russian Government, as a holding company, owned 50.67% of the Company’s ordinary voting stock as of December 31, 2005.

Information of the Company’s main subsidiaries is disclosed in Note 7. All subsidiaries are incorporated under the laws of the Russian Federation.

Presentation of Financial Statements

The consolidated financial statements of OJSC “Sibirtelecom” are prepared based on standalone financial statements of the parent and its subsidiaries and associates prepared under unified accounting policies.

The measurement and presentation currency of the Company is the Russian Rouble, which is the national currency of the Russian Federation.

Consolidated financial statements of the Company are presented in thousands of Russian Roubles.

Tariff Setting

Tariffs relating to intercity traffic are regulated by the government and tariffs for international traffic are regulated by OJSC “Rostelecom” which is controlled by OJSC “Svyazinvest” holding.

In 2005 the Company revised its tariffs for telephone services with the aim to decrease the effect of cross-subsidization between domestic long-distance and local services by changing the tariffs for local telephone calls.

(in thousands roubles)

1. General Information (continued)

In general, the Company increased tariffs in 2005 and 2004 as follows:

	Urban areas, %		Rural areas, %	
Customer Group	**2005**	**2004**	**2005**	**2004**
Residential	16.8%	29.0%	17.3%	31.7%
State-financed organizations	15.0%	24.1%	15.2%	23.9%
Commercial organizations	15.0%	24.1%	15.2%	23.9%

New regulations supporting the implementation of the Federal Law on Communications are effective from January 1, 2006. These regulations affect the principles of provision of fixed line telecommunication services and change licensing requirements to the Company (see also Note 34 on compensation surcharge).

Liquidity and Financial Resources

As of December 31, 2005, the Company's current liabilities exceeded its current assets by 4,104,850 (December 31, 2004 – 3,682,389). As a result, there may be some doubts about the Company's ability to attract further financing and to pay its existing debts as they fall due.

To date, the Company has significantly relied upon short-term and long-term financing to fund the improvement of its telecommunication network. This financing has historically been provided through bank loans, bonds, vendor financing, and finance leases. Management expects to continue to be able to delay payment for certain operating costs to manage its working capital requirements, if necessary.

If needed, management believes that certain projects may be deferred or curtailed in order to fund the Company's current operating needs.

Through 2006, the Company anticipates funding from a) cash generated from operations; b) bonds placement in the domestic market; c) financing from domestic and international lending institutions.

2. Basis of Presentation of the Financial Statements

Basis of Preparation

These financial statements have been prepared and presented in accordance with International Financial Reporting Standards ("IFRS").

These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with IFRS.

2. Basis of Presentation of the Financial Statements (continued)

Basis of Preparation (continued)

These financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or any other adjustments that might be required if the Company either be unable to continue as a going concern or if the Company was to dispose of assets outside the normal course of its operating plan.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The Company has transitioned to IFRS as of January 1, 2003 using the provisions of IFRS 1 “First-time Adoption of International Financial Reporting Standards”, which is effective for periods starting on or after January 1, 2004. IFRS 1 applies to first-time adopters of IFRS including companies that previously applied some, but not all IFRS, and disclosed this fact in its most recent previous financial statements.

The Company has applied an exemption permitted by IFRS 1 which allows an entity to measure property, plant, and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost. The Company has also applied the exemption permitted by IFRS 1 which allows an entity to recognize all cumulative actuarial gains and losses on employees defined benefit plans at the date of transition even if the corridor approach is used for latter actuarial gains and losses.

Management estimates that the carrying value of all of the Company’s property, plant and equipment is broadly comparable to their fair values. However, management intends to engage an independent appraiser to support these fair values and as a result, the reported carrying amount of property, plant and equipment may be adjusted. It is expected that the appraisal will be completed in the near future. Also management engaged an actuary to evaluate pension liabilities of the Company and, respectively, pension liabilities may be adjusted upon completion of the evaluation.

The Russian economy was considered hyperinflationary until prior to January 1, 2003. As such, the Company applied IAS 29 “Financial Reporting in Hyperinflationary Economies” by restating non-monetary items, including components of equity (except for the property, plant and equipment, for which fair values as of January 1, 2003 have been used as deemed cost) to the measuring units current as of January 1, 2003 by applying the relevant inflation indices to the historical cost. These restated values were used as a basis for accounting in subsequent periods.

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

2. Basis of Presentation of the Financial Statements (continued)

Basis of Preparation (continued)

The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 2 "Share-Based Payment";
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
- IAS 1 (revised) "Presentation of Financial Statements";
- IAS 2 (revised) "Inventories";
- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
- IAS 10 (revised) "Events after the Balance Sheet Date";
- IAS 16 (revised) "Property, Plant and Equipment";
- IAS 17 (revised) "Leases";
- IAS 24 (revised) "Related Party Disclosures";
- IAS 27 (revised) "Consolidated and Separate Financial Statements";
- IAS 28 (revised) "Investments in Associates";
- IAS 31 (revised) "Interests in Joint Ventures";
- IAS 32 (revised) "Financial Instruments: Presentation and Disclosure";
- IAS 33 (revised) "Earnings per Share";
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement".

The principal effects of these changes in policies are discussed below.

IAS 1 (revised) "Presentation of Financial Statements" and IAS 27 "Consolidated and Separate Financial Statements"

Minority interests in net assets of the Company's subsidiaries are presented within equity, separately from the parent shareholders' equity. Previously, minority interests were presented separately from liabilities and equity in the Company's consolidated balance sheet.

IAS 39 "Financial Instruments: Recognition and Measurement" (amended 2004)

The gains and losses on re-measurement of financial assets available-for-sale to fair value are recognized as a separate component of equity. A gain or loss on an available-for-sale financial asset is recognized directly in equity (including a reversal of impairment losses for equity instruments), through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Company's right to receive payment is established.

2. Basis of Presentation of the Financial Statements (continued)

Basis of Preparation (continued)

IFRSs and IFRIC Interpretations not yet effective

The Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IAS 19 (amended 2004) “Employee Benefits”;
- IAS 39 (amended 2005) “Financial Instruments: Recognition and Measurement”;
- IFRS 6 “Exploration for and Evaluation of Mineral Resources”;
- IFRS 7 “Financial Instruments: Disclosures”;
- IFRIC 4 “Determining whether an Arrangement contains a Lease”;
- IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”.

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company’s financial statements in the period of initial application.

Management Estimates

The preparation of financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates with regard to those financial statements relate to the valuation and useful lives of property, plant and equipment, intangible assets, provision for bad debt reserve, pension liabilities and deferred taxation as discussed in Notes 5, 6, 13, 22 and 27.

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of Goodwill and intangible assets not yet available for use

The Company determines whether goodwill and intangible assets not yet available for use are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2005 was 14,915 (2004 - 14,931) and the carrying amount of intangible assets not yet available for use as of December 31, 2005 was 661,900 (2004 – 1,371,577). More details are provided in Note 6.

(in thousands roubles)

2. Basis of Presentation of the Financial Statements (continued)

Correction of Errors and Reclassifications

In 2005 the Company determined and presented its obligations existing under the defined benefit plans in accordance with IAS 19, "Employee Benefits". The Company engaged an actuary to perform a valuation of the pension obligations and recorded the defined benefit obligation as of December 31, 2005 and made adjustments to the comparatives as of December 31, 2003 and 2004.

Additionally the Company revised valuation of fixed assets in tax accounting and made adjustments to the comparatives as of December 31, 2003 and 2004.

	As previously reported	Effect of adjustments	As restated	Description of adjustments
Consolidated Balance Sheet as of December 31, 2004				
Pension liabilities	–	829,618	829,618	Effect of pension liabilities recognized as of December 31, 2004
Deferred income tax liabilities	1,710,706	76,765	1,787,471	Effect of revision of revaluation of fixed assets in tax accounting
Other current assets	1,989,953	(1,560)	1,988,393	Adjustment for pension liabilities as of December 31, 2004
Retained earnings	13,022,096	(907,943)	12,114,153	Effect of pension liabilities recognized as of December 31, 2004 in amount 831,178; effect of revision of revaluation of fixed assets in tax accounting in amount 76,765.
Consolidated Income Statement for the year ended 2004				
Wages, salaries, other benefits and payroll taxes	(7,756,387)	(195,016)	(7,951,403)	Net defined benefit pension plan expense for 2004
Income tax expense	(1,001,349)	61,120	(940,229)	Effect of changes in fixed assets tax base
Consolidated Statement of changes in Equity for the year ended December 31, 2003				
Retained Earnings as of December 31, 2003	11,279,593	(774,047)	10,505,546	Effect of pension liabilities recognized as of December 31, 2003 - 636,162; effect of revision of revaluation of fixed assets in tax accounting in amount 137,885.

(in thousands roubles)

2. Basis of Presentation of the Financial Statements (continued)

Correction of Errors and Reclassifications (continued)

In addition the Company made the following reclassifications to the 2004 financial statements to conform to the 2005 presentation:

	As previously reported	Effect of reclassifications	As restated	Description of reclassifications
Consolidated Balance Sheet as of December 31, 2004				
Property, plant and equipment	25,611,489	57,110	25,668,599	Reclassification of inventories related to capital construction into property, plant and equipment - 57,107; other reclassifications - 3
Inventories	608,412	(57,107)	551,305	Reclassification of inventories related to capital construction into property, plant and equipment
Accounts receivable	1,761,796	(8,665)	1,753,131	Deferred income tax assets reclassification into deferred income tax liabilities
Current income tax receivable	–	9,808	9,808	Reclassification of current income tax receivable from other current assets
Other current assets	1,988,393	(9,808)	1,978,585	Reclassification of current income tax receivable from Other current assets
Long-term borrowings	5,428,512	(100,000)	5,328,512	Reclassification of current portion of long-term borrowings from long-term borrowings
Deferred income tax liabilities	1,787,471	(8,977)	1,778,494	Deferred income tax assets reclassification into deferred tax liabilities, net in amount 8,665; other reclassifications - 312.
Deferred revenue	228,978	21,051	250,029	Target financing reclassification from other non-current liabilities into deferred revenues
Other non-current liabilities	21,051	(21,051)	–	Target financing reclassification from other non-current liabilities into deferred revenues
Accounts payable, accrued expenses and advances received	2,599,005	315	2,599,320	Other reclassifications
Income tax payable	–	179,099	179,099	Reclassification of current income tax payable from other taxes payable
Other taxes payable	1,087,705	(179,099)	908,606	Reclassification of current income tax payable from other taxes payable
Current portion of long-term borrowings	2,542,567	100,000	2,642,567	Reclassification of current portion of long-term borrowings from long-term borrowings

(in thousands roubles)

2. Basis of Presentation of the Financial Statements (continued)

Correction of Errors and Reclassifications (continued)

	As previously reported	Effect of reclassifications	As restated	Description of reclassifications
Consolidated Statements of Operations for the year ended 2004				
Wages, salaries, other benefits and payroll taxes	(7,951,403)	3	(7,951,400)	Other reclassifications
Materials, repairs and maintenance, utilities	(1,995,356)	(111,340)	(2,106,696)	Reclassification of cost of SIM cards from other operating expenses
General and administrative expenses	(1,223,467)	1,223,467	–	Reclassification of General and administrative expenses into other operating expenses
Other operating expenses	(1,380,431)	(1,112,130)	(2,492,561)	Reclassification of general and administrative expenses into other operating expenses in amount 1,223,467; reclassification of cost of SIM cards into material, repairs and maintenance, utilities in amount 111,340; other reclassifications

3. Summary of Significant Accounting Policies

3.1 Principles of Consolidation

The consolidated financial statements of the Company represent the financial statements of the Group of companies, i.e. the parent and its subsidiaries, presented as if the Company operated as a single economic entity.

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

3. Summary of Significant Accounting Policies (continued)

3.1 Principles of Consolidation

Acquisition of Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Company's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Company's share of identifiable net assets of the subsidiary acquired the difference is recognized directly in the statement of operations.

Minority interest is the interest in subsidiaries not held by the Company. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within the shareholders' equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Company.

Acquisition of Minority Interest in Subsidiaries

The difference between the cost of the additional interest in a subsidiary and the minority interest's share of the assets and liabilities is reflected in the consolidated statement of shareholders' equity at the date of the purchase of the minority interest as a charge to retained earnings. The Company does not remeasure the assets and liabilities of the subsidiary to reflect their fair values at the date of the transaction.

3.2 Investments in Associates

Associates are entities in which the Company generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Company's share of net assets of the associate. The Company's share of its associates' profits or losses is recognized in the statement of operations, and its share of movements in reserves is recognized in equity. However, when the Company's share of losses in an associate equals or exceeds its interest in the associate, the Company does not recognize further losses, unless the Company is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3. Summary of Significant Accounting Policies (continued)

3.3 Investments

The Company's investments are classified as either loans and receivables or available-for-sale investments, as appropriate. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its investments after initial recognition. All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Company.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. During the period the Company did not hold any investments in this category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(b) those that the entity upon initial recognition designates as available for sale; or
(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of operations. Reversals of impairment losses in respect of equity instruments are not recognised in the statement of operations. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of operations.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis.

3. Summary of Significant Accounting Policies (continued)

3.4 Accounting Policies, Changes in Accounting Estimates and Errors

Change in Accounting Policies

The Company changes an accounting policy only if the change is required by a Standard or an Interpretation of IFRS or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Company's financial position, financial performance or cash flows.

The Company accounts for a change in accounting policy resulting from the initial application of a Standard or an Interpretation in accordance with the specific transitional provisions, if any, in that Standard or Interpretation.

Changes in Accounting Estimates

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate. The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only or the period of the change and future periods, if the change affects both.

Prior Period Errors

The Company corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for the prior period presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Prior period error is corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

3.5 Foreign Currency Transactions

The measurement and presentation currency of the Company is the Russian Rouble, which is the national currency of the Russian Federation. Transactions in foreign currencies are initially recorded in the measurement currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the measurement currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the consolidated statement of operations as foreign exchange gains (losses). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

(in thousands roubles)

3. Summary of Significant Accounting Policies (continued)

3.5 Foreign Currency Transactions (continued)

Assets and liabilities settled in Roubles but denominated in foreign currencies are recorded in the Company’s consolidated financial statements using the same principles as for assets and liabilities denominated in foreign currencies.

The exchange rates as of December 31, 2005 and 2004 were as follows:

Currency	2005	2004
Russian Roubles per US dollar	**28.78**	**27.75**
Russian Roubles per Euro	**34.19**	**37.81**

3.6 Property, Plant and Equipment

3.6.1 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. For the property, plant and equipment acquired prior to January 1, 2003, fair values as at January 1, 2003 have been used as deemed cost (refer to Note 2) in accordance with the exemption provided in IFRS 1. The carrying values of that property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. Impairment losses are recognized in the statement of operations.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Expenditure for continuing repairs and maintenance are charged to the statement of operations as incurred. Social assets are expensed on acquisition. Major renewals and improvements are capitalized, and the assets replaced are retired.

3.6.2 Depreciation and Useful Life

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:

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

3. Summary of Significant Accounting Policies (continued)

3.6 Property, Plant and Equipment (continued)

3.6.2 Depreciation and Useful Life (continued)

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognised.

The depreciation charge for a period is usually recognized in the statement of operations. However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount.

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

3.6.3 Construction in Progress

Construction in progress is recorded as the total of actual expenditures incurred by the Company from the beginning of construction to the reporting date less any impairment in value.

3.6.4 Assets Received Free of Charge

Equipment transferred to the Company free of charge by its customers and other entities outside the privatization process is capitalized at market value at the date of transfer. A corresponding income is fully recognized in the statement of operations. In cases transfers of equipment relate to rendering of future services to the transferee the equipment is considered deferred revenue which is recognised as income on the same basis that the equipment is depreciated.

Equipment contributions that will not generate any future economic benefit for the Company are not recognized.

3. Summary of Significant Accounting Policies (continued)

3.7 Intangible Assets

3.7.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the Company’s share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate 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 associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Company’s primary or the Company’s secondary reporting format determined in accordance with IAS 14 “Segment Reporting”.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is 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. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

3.7.2 Licenses

Cost of licenses paid to the Government for permission to provide telecommunication services within an identifiable period of time is recognized as intangible assets. The Company recognizes cost of GSM licenses at fair value as at transition to IFRS date.

3. Summary of Significant Accounting Policies (continued)

3.7 Intangible Assets (continued)

3.7.3 Software and Other Intangible Assets

Software and other intangible assets acquired separately are measured on initial recognition at cost. The cost of other intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

3.7.4 Useful Life and Amortization of Intangible Assets

The Company assesses whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of or number of production, or similar units constitutes that useful life. An intangible asset is regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Intangible assets with finite lives are amortized over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The cost of licenses and software is depreciated on a straight-line basis over the estimated useful life equal to the term of the licenses or the right to use the software. The useful life of other intangible assets is approximately 10 years.

Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

3.8 Borrowing Costs

The borrowing costs are capitalized by the Company as part of the cost of the asset when it is probable that they will result in future economic benefits to the entity and the costs are directly attributable to the acquisition, construction or production of a qualifying asset including construction in progress.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset is determined as the actual borrowing costs incurred on that borrowing during the period.

3. Summary of Significant Accounting Policies (continued)

3.8 Borrowing Costs (continued)

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 entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

3.9 Leases

Leases where all the risks and rewards of ownership of the asset are transferred from the lessor to the leasee are classified as finance leases.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases.

3.9.1 Finance Leases

At the commencement of the lease term or the date from which the lessee is entitled to exercise its right to use the leased asset, the Company recognizes finance leases as assets and liabilities in their balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. At the commencement of the lease term the asset and the liability for the future lease payments are recognized in the balance sheet at the same amounts except for any initial direct costs of the lessee that are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned, and the depreciation recognized is calculated in accordance with the accounting policy of the Company applicable for depreciable and amortized assets. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

3.9.2 Operating Leases

Operating lease payments are recognised as an expense in the statement of operations on a straight-line basis over the lease term.

3. Summary of Significant Accounting Policies (continued)

3.10 Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

3.11 Advances Given

Advances given to acquire non-current assets are classified as non-current and considered a non-monetary asset. Long-term advances given for operating activities are also classified as non-current asset.

3.12 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets comprise cash and cash equivalents; an equity instrument of another entity; a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Company; or a contract that will or may be settled in the Company’s own equity instruments and is a non-derivative for which the Company is or may be obliged to receive a variable number of the Company’s own equity instruments, or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company’s own equity instruments. For this purpose the Company’s own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the Company’s own equity instruments.

Financial liabilities include contractual obligations to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company; or a contract that will or may be settled in the Company’s own equity instruments and is a non-derivative for which the Company is or may be obliged to deliver a variable number of the Company’s own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company’s own equity instruments. For this purpose the Company’s own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity’s own equity instruments.

The Company recognizes a financial asset or a financial liability on its balance sheet when, and only when, the Company becomes a party to the contractual provisions of the instrument.

3. Summary of Significant Accounting Policies (continued)

3.12 Financial Instruments (continued)

When a financial asset or financial liability is recognized initially, the Company measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The Company classifies its financial assets and financial liabilities as current or non-current based on the term of its maturity taking into account other factors that limit the Company’s ability to realize assets within 12 months or the existence of call options in financial liabilities valid within 12 months after the balance sheet date.

Financial asset is derecognised when the rights to receive cash flows from the asset expired or the Company transferred its rights to receive cash flows from the asset.

Financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

3.13 Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in the Company’s bank accounts, as well as cash deposits and short-term investments with original maturities of three months or less.

3.14 Accounts Receivable and Provision for Bad Debt

Trade receivables are recognized at original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Company will not be able to collect the debts.

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

Provision for impairment is also created for other accounts receivable except advances given based on the assessment of the Company’s ability to collect the debts.

Provision for impairment is recognized in the statement of operations.

The carrying amount of current trade receivables is a reasonable approximation of their fair value.

The fair value of non-current trade receivables is calculated using the effective interest method.

3. Summary of Significant Accounting Policies (continued)

3.15 Non-current Assets Held for Sale and Discontinued Operations

A discontinued operation is a component of the Company that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single co-coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

The Company classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The Company measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) are be measured in accordance with applicable IFRSs.

The Company presents and discloses information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).

3.16 Troubled Debt Restructurings

A troubled debt restructuring occurs when the Company grants a concession to the debtor in the forms of modification of the terms of the debt, including the extension of the maturity date, change of payment schedule or reduction of the face amount of the debt, or in the form of transfer of the assets or an equity interest in the debtor in satisfaction of the debt. The Company recognized a loss in the amount of the difference between the fair value of the assets and/or equity interest received and the recorded amount of the receivable. This loss will be recognized in full in the period the restructuring takes place.

3.17 Loans Given

Loans given are recognized at the amortized cost, using the effective interest method less provision for impairment or uncollectibility. Loans given are recorded as the non-current assets unless the repayment is expected within 12 months after the balance sheet date.

3.18 Loans and Borrowings Received

Loans and Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognised as an adjustment to interest expense over the period of the borrowings.

3. Summary of Significant Accounting Policies (continued)

3.19 Employee Benefits

3.19.1 Unified Social Tax

Under provisions of the Russian legislation, social contributions are made through a unified social tax (“UST”) calculated by the Company by the application of a regressive rate (from 26% to 17%) to the annual gross remuneration of each employee. The Company allocates the UST to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund vary from 20% to 14% depending on the annual gross salary of each employee.

The Company’s contributions relating to the UST are expensed in the year to which they relate.

3.19.2 Current Employment Benefits

Wages and salaries paid to employees are recognized as expense in the current period.

3.19.3 Other Pension Plans and Post-Employment Benefits

Under collective bargaining agreements and internal regulations on additional pension benefits, the Company also provides additional benefits for its active and retired employees by using post-employment defined benefit plans. The majority of the Company’s employees are eligible to participate under such post-employment benefit plans based upon a number of factors, including years of service, age, and compensation.

The Company determines the present value of the defined benefit obligation and the fair value of any plan assets on each reporting date separately for each plan. The obligations are valued by professionally qualified independent actuaries hired by the Company using the projected unit credit method. The assets of the defined benefit plans are valued by professionally qualified actuaries or independent appraisers.

Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Upon introduction of a new plan or improvement of an existing plan past service cost is recognized on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits vest immediately past service costs are immediately expensed.

Gains or losses on the curtailment or settlement of pension benefit obligations are recognized when the curtailment or settlement occurs.

3. Summary of Significant Accounting Policies (continued)

3.20 Income Taxes

Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or 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.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the entity expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and 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.

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.

Deferred tax assets and liabilities are not discounted.

3. Summary of Significant Accounting Policies (continued)

3.21 Shareholders’ Equity

3.21.1 Share Capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

3.21.2 Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared at a Shareholders’ meeting before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

3.22 Minority Interest

Minority interest is the interest in subsidiaries not held by the Company. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair values of identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in net assets since the date of the combination. Minority interest is presented within equity, separately from the parent shareholders’ equity.

3.23 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Revenue is recognized in the amount of cash or cash equivalents received in the form of cash or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an effective interest rate.

3.23.1 Revenue from Customers

The Company categorizes the revenue sources in fourteen major categories:

1. Long distance calls - domestic;
2. Long distance calls - international;
3. Local telephone calls;
4. Installation and connecting fees;
5. Documentary services;
6. Cellular services;
7. Radio and TV broadcasting;

3. Summary of Significant Accounting Policies (continued)

3.23 Revenue Recognition (continued)

3.23.1 Revenue from Customers (continued)

8. Data transfer and telematic services;
9. New services;
10. Rent of telephone channels;
11. Services for national operators;
12. Services for international operators;
13. Other telecommunications services;
14. Other revenues.

Long distance calls (domestic and international)

Revenues from long distance services depend on time of call, duration of call, destination of call, type of service used, subscriber category and the applied rate plan. Customers of the Company use the service via installed fixed telephone as well the service could be accessed by means of pay-phone. The Company charges long distance fees on a per-minute basis. The Company recognizes revenues related to the long distance services in the period when the services are rendered.

Local telephone calls

Revenue from the local telephone services depends on the duration of the telephone connections and subscription fee, while time driven billing scheme is applied. If fixed payment scheme is applied then revenue depends on the subscription fee only. Customers of the Company use the service via installed fixed telephone as well the service could be accessed by means of pay-phone. The Company recognizes revenues related to the monthly network fees for local services in the month the service is provided to the subscriber.

Installation and connection fees

Installation and connection fees for indefinite period contracts are paid by a combination of a fixed cash amount and by the contribution of fixed assets consisting of cable and duct, commonly referred to as the "last mile". Revenue received in the form of cash is recognized when the installation and connection are complete. For installation and connection fees paid in the form of fixed assets, revenue is deferred and recognized as income on the same basis that the fixed assets are depreciated.

Documentary services

Revenues from telegraph services comprise fees for telegram transmissions and other wire line data transmission services. The Company recognizes revenues related to telegraph services in the period when the services are rendered.

3. Summary of Significant Accounting Policies (continued)

3.23 Revenue Recognition (continued)

3.23.1 Revenue from Customers (continued)

Cellular services

Major revenues from cellular services arise from airtime services including local, intercity long distance and international long distance calls, subscription fees, value added services, outbound and inbound roaming. The Company recognizes revenues related to mobile telecommunications services in the period when the services are rendered.

Radio and TV broadcasting

The Company maintains a wireline radio broadcasting network. The revenues comprise monthly fees from subscribers and installation fees for wireline radio sets. The Company recognizes the revenues related to radio broadcasting in the period when the services are rendered.

Data transfer and telematics services

The Company recognizes revenues related to data transfer and telematics services in the period when the services are rendered.

New services

Major revenues from new services include internet services, ISDN, ADSL, IP-telephony, intelligent network services. The Company recognizes revenues related to new services in the period when the services are rendered.

Rent of telephone channels

Major revenues are recognized from the following services: rent of intercity and international, digital, analogue, and telegraph channels. The Company recognizes revenues from the rent of channels in the period when the services are rendered.

Services for national operators

Revenue from national service providers includes two different groups.

The first group of revenues represents services rendered to the Company's partners for termination of long-distance traffic of its operators-partners in the network of the Company.

The second group of revenues from national operators represents services rendered to interconnected telecom operators that transfer local, intercity and international traffic of their customers via network of the Company.

3. Summary of Significant Accounting Policies (continued)

3.23 Revenue Recognition (continued)

3.23.1 Revenue from Customers (continued)

Major revenues are recognized from the services rendered to operators for transit of local, intercity and international traffic. Further, the Company generates revenue from interconnection to the network (one time fees), rent of channels, rent of equipment, data transfer and Internet services.

The Company recognizes revenues from national operators in the period when the services are rendered.

Services for international operators

The revenues represents services rendered to interconnected international telecom operators that transfer international traffic of their customers via network of the Company.

The Company recognizes revenues from national operators in the period when the services are rendered.

Other telecommunication services

Other telecommunication services primarily consist of revenues received by public switched telephone network (PSTN) stations from the rent of direct lines and local junctions, as well as subscription fees for wired-radio outlets. The Company recognizes revenues related to other services in the period when the services are rendered.

Other revenues

Other revenues primarily consist of revenues received from manufacturing of the telecommunication equipment and its technical support, transportation services, recreation services and sale of products and services provided by auxiliary units.

3.24 Barter Transactions

When goods or services are exchanged for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

3. Summary of Significant Accounting Policies (continued)

3.25 Earnings per Share

The Company calculates basic earnings per share amounts for profit or loss attributable to equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders. Basic earnings per share are calculated by dividing profit or loss attributable to equity holders of the parent entity (the numerator) by the weighted average number of shares outstanding (the denominator) during the period.

The Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (see Note 28).

3.26 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

3.27 Contractual Commitments

Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future.

The Company discloses significant contractual commitments in the Notes to the financial statements.

The asset or liability under contractual commitments are not recognized in the financial statement until any of the parties performs in accordance with the contract and until any of the party became legally liable to pay or entitled to receive the payment under the terms of the contract.

3.28 Contingent Assets and Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. The Company does not recognize a contingent liability. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. The Company does not recognize a contingent asset. A contingent asset is disclosed where an inflow of economic benefits is probable.

3. Summary of Significant Accounting Policies (continued)

3.29 Segment Information

The Company provides fixed line and mobile telecommunication services. Management believes that the Company operates in one geographical segment on the territory of Sibiria region of the Russian Federation.

3.30 Related Party Transactions

The Company defines the following terms to specify the related party: a party is related to the Company if:

1. directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Company (this includes parents, subsidiaries and fellow subsidiaries), has an interest in the entity that gives it significant influence over the entity or has joint control over the entity;
2. the party is an associate (as defined in IAS 28 Investments in Associates) of the entity;
3. the party is a joint venture in which the entity is a venturer (see IAS 31 Interests in Joint Ventures);
4. the party is a member of the key management personnel of the entity or its parent;
5. the party is a close member of the family of any individual referred to in (1) or (4);
6. the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in 4 or 5; or
7. the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Relationships between the parent and its subsidiaries and between subsidiaries themselves are not disclosed by the Company.

3.31 Events After the Balance Sheet Date

The Company adjusts the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date. Events require an entity to adjust the amounts recognized in its financial statements are caused by favorable and unfavorable outcomes of conditions that existed at the balance sheet date and change in management estimates subject to uncertainties which was used for accounting of a number of business activities.

If non-adjusting events after the balance sheet date are material, nondisclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, the Company discloses the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made the following for each material category of non-adjusting event after the balance sheet date.

(in thousands roubles)

4. Segment Information

	2005				
	Fixed line	**Mobile**	**Other**	**Intercompany eliminations**	**Total for the Company**
REVENUE					
Sales to third parties	20,422,206	6,495,775	514,158	–	**27,432,139**
Inter-segment sales	370,030	29,277	21,154	(420,461)	–
Total revenue	**20,792,236**	**6,525,052**	**535,312**	**(420,461)**	**27,432,139**
Segment result	(93,147)	3,160,265	312,029	–	**3,379,147**
Operating profit					**3,379,147**
Share of result of associates					15,439
Interest expense, net					(1,004,763)
Gain from sale of subsidiaries, associates and other investments					86,052
Other income and expenses, net					(8,691)
Foreign exchange loss, net					(45,121)
Income tax					(806,819)
Net profit					**1,615,244**
Assets and Liabilities					
Segment assets	32,625,064	7,335,364	30,571	–	**39,990,999**
Investments in associates					50,584
Consolidated total assets					**40,041,583**
Segment liabilities	(20,025,880)	(2,790,593)	(10,343)	–	**(22,826,816)**
Consolidated total liabilities					**(22,826,816)**
OTHER INFORMATION					
Capital expenditure	6,239,065	3,034,489	1,305	–	9,274,859
Depreciation and amortization	2,733,684	566,153	–	–	3,299,837
Other non-cash expenses (provision for impairment of receivables)	(116,862)	50,628	–	–	(66,234)
Impairment of Goodwill	–	79,768	–	–	79,768

(in thousands roubles)

4. Segment Information (continued)

	2004				
	Fixed line	**Mobile**	**Other**	**Intercompany eliminations**	**Total for the Company**
REVENUE					
Sales to third parties	17,835,063	4,043,872	723,473		22,602,408
Inter-segment sales	284,698	11,712	41,917	(338,327)	–
Total revenue	**18,119,761**	**4,055,584**	**765,390**	**(338,327)**	**22,602,408**
Segment result	767,118	2,132,083	555,100	–	**3,454,301**
Operating profit					**3,454,301**
Share of result of associates					6,766
Interest expense, net					(785,204)
Gain from sale of subsidiaries, associates and other investments					106,464
Foreign exchange gain, net					52,987
Income tax					(940,229)
Net profit					**1,895,085**
Assets and Liabilities					
Segment assets	28,520,455	4,798,853	19,495	–	33,338,803
Investments in associates					35,735
Consolidated total assets					**33,374,538**
Segment liabilities	(15,808,341)	(1,879,738)	(7,828)	–	**(17,695,907)**
Consolidated total liabilities					**(17,695,907)**
OTHER INFORMATION					
Capital expenditure	6,658,654	2,022,551	3,036	–	8,684,241
Depreciation and amortization	2,098,956	363,565	–	–	2,462,521
Other non-cash expenses (provision for impairment of receivables)	290,855	6,237	–	–	297,092

(in thousands roubles)

4. Segment Information (continued)

The Company provides fixed line and mobile telecommunication services. Management believes that the Company operates in one geographical segment.

Unallocated expenses, assets and liabilities are expenses, assets and liabilities that arise at the entity level and relate to the entity as a whole.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables, and operating cash and exclude assets that relate to the Company as a whole. Segment liabilities primarily comprise operating liabilities, loans and leasing liabilities and exclude items pertaining to the Company as a whole.

Capital expenditure comprises additions to property, plant and equipment. Provisions relate only to those charges made against allocated assets.

Segments are comprised of separate legal entities who file separate tax returns, therefore income tax expense is allocated to the segments in full.

5. Property, Plant and Equipment, net

	Land, buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles and other	Total
Cost					
As of December 31, 2003	**8,694,380**	**10,026,094**	**1,542,705**	**1,913,726**	**22,176,905**
Additions	–	–	7,692,354	–	7,692,354
Additions due to acquisition of subsidiaries	–	18,520	–	–	18,520
Disposals	(52,655)	(90,411)	(24,429)	(20,412)	(187,907)
Disposals due to sale of subsidiaries	(5,731)	(17,911)	(356)	(5,030)	(29,028)
Transfers	2,183,633	4,464,493	(7,651,036)	1,002,910	–
As of December 31, 2004	**10,819,627**	**14,400,785**	**1,559,238**	**2,891,194**	**29,670,844**
Additions	–	–	8,556,078	–	8,556,078
Additions due to acquisition of subsidiaries	100,876	50,221	29,747	2,181	183,025
Disposals	(207,455)	(426,957)	(48,637)	(74,721)	(757,770)
Transfers	2,268,692	4,000,417	(7,562,540)	1,293,431	–
As of December 31, 2005	**12,981,740**	**18,024,466**	**2,533,886**	**4,112,085**	**37,652,177**
Accumulated Depreciation					
As of December 31, 2003	**(515,807)**	**(991,047)**	**–**	**(218,925)**	**(1,725,779)**
Charge for the year	(540,864)	(1,312,543)	–	(485,324)	(2,338,731)
Charge due to acquisition of subsidiaries	–	(2,971)	–	–	(2,971)
Disposals	13,386	33,981	–	14,344	61,711
Disposals due to sale of subsidiaries	154	1,687	–	1,684	3,525
As of December 31, 2004	**(1,043,131)**	**(2,270,893)**	**–**	**(688,221)**	**(4,002,245)**
Charge for the year	(588,618)	(1,689,302)	–	(794,004)	(3,071,924)
Charge due to acquisition of subsidiaries	(3,635)	(7,115)	–	(1,098)	(11,848)
Disposals	159,203	255,753	–	63,819	478,775
As of December 31, 2005	**(1,476,181)**	**(3,711,557)**	**–**	**(1,419,504)**	**(6,607,242)**
Net book value as of December 31, 2003	**8,178,573**	**9,035,047**	**1,542,705**	**1,694,801**	**20,451,126**
Net book value as of December 31, 2004	**9,776,496**	**12,129,892**	**1,559,238**	**2,202,973**	**25,668,599**
Net book value as of December 31, 2005	**11,505,559**	**14,312,909**	**2,533,886**	**2,692,581**	**31,044,935**

(in thousands roubles)

5. Property, Plant and Equipment, net (continued)

The net book value of property, plant and equipment held under finance leases as of December 31, 2005 and 2004 amounted to:

	2005	2004
Land, buildings and constructions	45,438	53,969
Switches and transmission devices	1,520,473	1,722,100
Construction in progress and equipment for installation	10,454	7,110
Vehicles and other	137,411	185,392
Total net book value of property, plant and equipment held under finance leases	**1,713,776**	**1,968,571**

Leased assets are pledged as security for the related finance lease obligations (see Note 19).

The net book value of property, plant and equipment, which were received on vendor financing terms, amounted as of December 31, 2005 to 0 (2004 – 96,520).

In 2005, the Company increased construction in progress by the amount of capitalized interest totalling 293,406 (2004 – 237,649). The capitalization rate in 2005 was 11% (2004 - 13%).

Bank borrowings are secured by properties with a carrying value of approximately 4,602,000 (2004 – 7,783,000) as of December, 31 2005 (see Note 18).

The net book value of property, plant and equipment, which were subject to joint ownership as of December 31, 2005 is 115,263 (2004 – 120,065).

Management estimates that the carrying value of all of the Company's property, plant and equipment as of the date of transition to IFRS was broadly comparable to their fair values. However, management has engaged an independent appraiser to support these fair values and as a result, the reported carrying amount of property, plant and equipment may be adjusted.

(in thousands roubles)

6. Intangible Assets and Goodwill, net

	Goodwill	Licenses	Software	Other	Total
Cost					
As of December 31, 2003	5,511	589,234	814,624	40,222	1,449,591
Additions	9,420	26,231	961,615	4,041	1,001,307
Disposals	–	(103)	–	(533)	(636)
As of December 31, 2004	**14,931**	**615,362**	**1,776,239**	**43,730**	**2,450,262**
Additions	–	5,034	691,139	22,608	**718,781**
Additions due to acquisition of subsidiaries	79,752	33,171	8,107	27,025	**148,055**
Disposals	–	(10,116)	(51,178)	–	**(61,294)**
As of December 31, 2005	**94,683**	**643,451**	**2,424,307**	**93,363**	**3,255,804**
Impairment					
As of December 31, 2003	–	–	–	–	–
Charge for the year	–	–	–	–	–
Disposals	–	–	–	–	–
As of December 31, 2004	–	–	–	–	–
Charge for the year	(79,768)	–	–	–	**(79,768)**
Disposals	–	–	–	–	–
As of December 31, 2005	**(79,768)**	–	–	–	**(79,768)**
Accumulated amortization					
As of December 31, 2003	–	(59,466)	(57,360)	(6,853)	(123,679)
Charge for the year	–	(57,771)	(55,418)	(7,630)	(120,819)
Disposals	–	11	–	183	194
As of December 31, 2004	**–**	**(117,226)**	**(112,778)**	**(14,300)**	**(244,304)**
Charge for the year	–	(71,740)	(125,641)	(6,373)	(203,754)
Charge due to acquisition of subsidiaries	–	(3,640)	(881)	(7,790)	(12,311)
Disposals	–	10,116	–	–	10,116
As of December 31, 2005	–	**(182,490)**	**(239,300)**	**(28,463)**	**(450,253)**
Net book value as of December 31, 2003	5,511	529,768	757,264	33,369	1,325,912
Net book value as of December 31, 2004	14,931	498,136	1,663,461	29,430	2,205,958
Net book value as of December 31, 2005	**14,915**	**460,961**	**2,185,007**	**64,900**	**2,725,783**

Oracle E-Business Suite (OEBS)

As of December 31, 2005 software includes OEBS software with a gross book value of 940,479 (2004 – 825,179), including interest capitalized of 175,466 (2004 – 95,823). In accordance with the supply contract, the Company acquired non-exclusive licenses for 12,400 users of E-business Suite 2004 Professional among other license applications.

Starting November 30, 2005 the Company commenced the commercial operation of OEBS in relation to the module for accounting for non-current assets, the Release #1, in line with the pilot stage of the completion of the installation in Omsk and Head Office branches.

Full implementation of the Oracle E-Business Suite software is expected to be completed by 2008.

The Company commenced amortizing the value of the mentioned software starting November 30, 2005 proportionally to the quantity of licenses used, over the useful life of the licenses of 10 years.

6. Intangible Assets and Goodwill, net (continued)

Amdocs Billing Suite

As of December 31, 2005 software also includes Amdocs Billing Suite software with a gross book value of 661,900 (2004 – 546,398), including the discount from promissory notes capitalized totalling 28,613 (2004 – 3,136). The capitalization rate in 2005 was 5.98%. This software was purchased for the purpose of the implementation of unified automated settlements system. The project of implementation of the unified automated settlements system is expected to last 4-5 years.

The Company's Board of Directors approved the purchase of the Amdocs Billing Suite software on November 20, 2004.

Amdocs Billing Suite software was supplied in December 2004 by LLC IBM Eastern Europe/Asia, in exchange for 18 zero coupon promissory notes for the total amount of 644,192. Repayment of the promissory notes issued is expected to be exercised by June 1, 2006.

The Company will commence amortizing this asset from the date of software implementation. Up to this moment the Company indends to perform the annual impairment test of the asset.

Licenses

As of December 31, 2005 licenses mainly included GSM 900 licenses with a net book value of 397,884 (2004 – 456,752). The Company measured GSM licenses at the date of transition to IFRS at fair value and used that fair value as deemed cost at that date. The remaining useful life of licenses is approximately 10 years.

Amortization charge for 2005 in the amount of 216,065 (2004 – 120,819) was recorded in the line Depreciation and Amortization of the Consolidated Statement of Operations.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- OJSC "Altaisvyaz"
- OJSC "Mobiltelecom"
- CJSC "Chita NET"
- Other subsidiaries

The recoverable amounts of OJSC "Altaisvyaz", OJSC "Mobiltelecom", CJSC "Chita NET" and other cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a 20% growth rate that is the same as the long-term average growth rate for the above mentioned cash-generating units. The discount rate applied to cash flow projections is 20.72%.

(in thousands roubles)

6. Intangible Assets and Goodwill, net (continued)

Impairment testing of goodwill (continued)

The following describes each key assumption applied by the management for cash flow projections to undertake impairment testing of goodwill and licenses:

- Budgeted gross margins – the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements;
- Bond rate – the yield on five-year Russian government Rouble-denominated bonds at the beginning of the budgeted year.

Carrying amount of goodwill allocated to each of the cash-generating units:

	Carrying amount of goodwill	
Subsidiary	**2005**	**2004**
CJSC “Eniseytelecom”	5,511	5,511
CJSC “Chita NET”	9,404	9,404
OJSC “Altaisvyaz”	79,752	–
OJSC “Mobiltelecom”	16	16
Total	**94,683**	**14,931**

As of December 31, 2005 impairment in amount of 79,768 was identified by the Company after the testing of OJSC “Altaisvyaz” and OJSC “Mobiltelecom” for impairment.

As of December 31, 2005 no impairment was identified by the Company after the testing of OJSC “Eniseytelecom” and CJSC “Chita NET”.

Impairment test of intangible assets not yet available for use

The Company performed impairment tests of intangible assets not yet available for use. These assets represent cost of Amdocs Billing Suite totalling 661,900 at December 31, 2005 (2004 –546,398). As of December 31, 2005 no impairment was identified.

(in thousands roubles)

7. Consolidated Subsidiaries

The consolidated financial statements include the assets, liabilities and financial results of OJSC “Sibirtelecom” and its subsidiaries, whose main activity is provision of cellular and other telecommunication services. The subsidiaries are listed below:

Subsidiary	Main Activity	Ownership,% 2005	Ownership,% 2004	Voting Shares 2005	Voting Shares 2004
CJSC “Eniseytelecom”	Cellular services (GSM-900)	100.00	100.00	100.00	100.00
CJSC “Baikalwestcom”	Cellular services (GSM-900)	100.00	100.00	100.00	100.00
CJSC “Sayantelecom” [1]	Cellular services (GSM-900)	–	100.00	–	100.00
CJSC “Chita NET”	Data transmission and telematics services	100.00	31.10	100.00	31.10
CJSC “Altaiskaya telecommunicatsionnaya companiya”	Local telephone network services	100.00	100.00	100.00	100.00
CJSC “Kuzbass Cellular Telephone GSM”	Cellular services (GSM-900)	100.00	100.00	100.00	100.00
LLC “Private Security Agency Ekrantelecom”	Security services	–	82.55	–	82.55
CJSC “Region Net”	Cellular services (CDMA)	66.00	66.00	66.00	66.00
OJSC “NGTS Page”	Paging services	–	72.70	–	72.70
CJSC “Altayskaya investitsionnaya companiya”	Purchase and sale activities	62.50	62.50	62.50	62.50
OJSC “Mobiltelecom”	Internet services, cellular services	64.99	61.16	64.99	61.16
OJSC “Altaisvyaz” [1]	Cellular services	59.70	–	59.70	–
OJSC “Regional Information Nets”	Internet services	51.00	51.00	51.00	51.00

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

In February 2005 in accordance with the decision of the Board of Directors the Group acquired a 59.7% stake in OJSC “Altaisvyaz” for 153,314. The subsidiary was purchased for the purpose of rendering cellular services in the Altai region as part of the Company’s mobile business development program.

[1] Owned indirectly through CJSC “Eniseytelecom”

(in thousands roubles)

7. Consolidated Subsidiaries (continued)

Management has assigned the acquisition price for the 59.7% stake in OJSC "Altaisvyaz" as follows:

Acquisition price	153,314
Assigned fair value of identifiable assets and liabilities:	
Property, plant and equipment, net	183,025
Intangible assets, net	66,525
Accounts receivable, net	2,142
Cash and cash equivalents	219
Other current assets	14,919
Current liabilities	(56,796)
Long-term liabilities	(86,814)
Total net assets	**123,220**
Company's share in acquired net assets	59.7%
Assigned fair value of acquired share in identifiable net assets	73,562
Amount of goodwill at December 31, 2005, gross	**79,752**
Impairment	**(79,752)**
Amount of goodwill at December 31, 2005, net	**–**

During the year 2005 the Company disposed shares in the following subsidiaries: CJSC "NGTS Page" and LLC "Private Security Agency Ekrantelecom". Both the subsidiaries are under liquidation procedure.

Profit / loss on sale of shares in subsidiaries is presented in Note 26.

8. Investments in Associates

Investments in associates as of December 31, 2005 and 2004 comprised the following:

		2005		2004	
Associate	**Activity**	**Voting shares, %**	**Carrying value**	**Voting shares, %**	**Carrying value**
CJSC "ATC-32"	Local telephone network services, internet services	40.42	14,081	40.42	13,338
CJSC "ATC-41"	Local telephone network services, internet services	49.00	10,304	49.00	9,456
CJSC "Novocom"	Local telephone network services, internet services	50.00	10,589	50.00	7,389
LLC "Giprosvyaz-Sibir"	Engineering	24.00	4,058	24.00	2,781
CJSC "TeleRoss Novosibirsk"	Local telephone network services, internet services	50.00	1,850	50.00	2,772
OJSC "Locktelecom"	Local telephone network services	35.56	9,723		–
Other			2,855		2,874
Impairment provision			(2,876)		(2,875)
Total			**50,584**		**35,735**

(in thousands roubles)

8. Investments in Associates (continued)

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

The Company has investments in the following associates whose net assets were negative as of December 31, 2005 and 2004:

Name	Activity	Voting share, %	Net assets as of December 31, 2005	2004
OJSC "Irkutskaya Raschetnaya Palata"	internet services	34.00	(564)	(634)
CJSC "ZS&TKC N"	network services	30.00	(103,878)	(93,150)
LLC "Svyazinvest-Media-Sibir"	publishing activities	25.01	(111)	(2,224)
CJSC "Zholtye stranisi - Tomsktelecom"	publishing activities	33.33	(672)	(435)

The carrying value of investments in associates shown in these consolidated financial statements is equivalent to the Company's share in the net assets of the associated company, except for investments in OJSC "Irkutskaya Raschetnaya Palata", and CJSC "ZS&TKC N", LLC "Svyazinvest-Media-Sibir" and CJSC "Zholtye stranisi - Tomsktelecom". For these latter associates the carrying amount of the investments were reduced to zero considering that such associates reported accumulated losses exceeding the cost of the respective investments.

Disposal of shares in associates for 2005 is presented below:

Associate	Main activity	Carrying value of investment in associate	Sale/disposal of share in equity on the date of transaction, %	Proceeds from sale
CJSC "Sibton"	Telecommunication services	19	21.80	19
Total		**19**		**19**

Gain/(loss) from sale of shares in associates is presented in Note 26.

Movement in investments in associates for the years ended December 31, 2005 and 2004 is presented below:

	2005	2004
Investments in associates as of January 1, net	**35,735**	**35,035**
Acquisition of associates	–	18,091
Share of income net of income tax and net of dividends received	14,849	6,766
Effect of consolidation as a result of acquisition of control	–	(23,153)
Sale of investment in associates	–	(1,004)
Investments in associates as of December 31, net	**50,584**	**35,735**

(in thousands roubles)

8. Investments in Associates (continued)

Share of results of associates is presented net of income tax in amount of 3,521.

The following table illustrates summarised financial information of the associates:

Associate	Voting shares	Assets	Liabilities	Revenues	Net (income)/loss
2005					
CJSC “ATC-32”	40.42%	37,564	2,728	(37,648)	(3,040)
CJSC “ATC-41”	49.00%	27,783	6,753	(40,482)	(3,696)
CJSC “Novocom”	50.00%	22,991	1,814	(48,851)	(6,900)
LLC “Giprosvyaz-Sibir”	24.00%	31,354	14,446	(72,699)	(9,403)
CJSC “TeleRoss Novosibirsk”	50.00%	8,959	5,260	(4,004)	2,078
OJSC “Irkutskaya Raschetnaya Palata”	34.00%	2,685	3,249	(133)	(70)
CJSC “ZS&TKC N”	30.00%	62,410	166,288	(26,430)	10,818
LLC “Svyazinvest-Media-Sibir”	25.01%	3,548	3,659	(12,980)	(1,381)
OJSC “Locktelecom”	36.56%	44,453	17,913	(23,553)	(2,752)
CJSC “Zholtye stranisi - Tomsktelecom”.	33.33%	952	1,624	(1,858)	193
2004					
CJSC “ATC-32”	40.42%	36,013	3,014	(32,726)	(385)
CJSC “ATC-41”	49.00%	25,103	5,806	(35,713)	(3,206)
CJSC “Novocom”	50.00%	19,881	5,104	(40,764)	(2,834)
LLC “Giprosvyaz-Sibir”	24.00%	19,082	7,493	(30,231)	(10,589)
CJSC “TelRoss Novosibirsk”	50.00%	10,699	5,156	(19,357)	615
OJSC “Irkutskaya Raschetnaya Palata”	34.00%	2,721	3,355	(279)	273
CJSC “ZS&TKC N”	30.00%	99,400	192,550	(20,360)	1,564
LLC “Svyazinvest-Media-Sibir”	25.01%	2,810	5,034	(8,562)	300
OJSC “Locktelecom”	36.56%	41,828	16,461	(19,782)	(6,289)
CJSC “Zholtye stranisi - Tomsktelecom”	33.33%	1,504	1,939	(3,369)	(18)

As of December 31, 2005 and December 31, 2004 the Company does not account for its share in the net assets of CJSC “ZS&TKC N” due to the liquidation of the company.

(in thousands roubles)

9. Long-Term and Short-Term Investments, net

As of December 31, 2005 and 2004 the Company’s investments comprised the following:

	2005	2004
Long-term investments held-to-maturity	491	30,000
Long-term investments available-for-sale	76,108	42,360
Total long-term investments	**76,599**	**72,360**
Short-term investments held-to-maturity	57,080	161,901
Short-term investments available-for-sale	91,117	–
Total short-term investments	**148,197**	**161,901**
Total long-term and short-term investments, net	**224,796**	**234,261**

As of December 31, 2005 short-term investments held-to-maturity included bank deposits with a maturity from 3 months to 1 year in amount of 54,000 (2004 – 146,419).

As of December 31, 2005 and 2004 investments available-for-sale comprised the following:

	2005		2004	
Company	**Ownership interest**	**Carrying value**	**Ownership interest**	**Carrying value**
Long-term investments				
OJSC “Sberbank RF”	0.01%	47,176	0.01%	17,253
OJSC “Sibacadembank”	0.84%	13,979	0.84%	13,979
OJSC “Svyazintech”	11.00%	12,591	–	
CJSC “RusleasingSvyaz”	7.30%	11,613	7.30%	11,613
OJSC “CB Svyazbank “	0.01%	10,239	0.01%	10,239
OJSC “AltayBusinessBank”	5.70%	3,830	5.70%	3,830
OJSC “CB Accept”	–	–	4.31%	21,110
CJSC “Sibirskaya Sotovaya Svyaz”	–	–	10.00%	17,851
Other		11,590		14,274
Impairment provision		(34,910)		(67,789)
Short-term investments				
CJSC “Sibirskaya Sotovaya Svyaz”	10.00%	91,117		–
Total investments		**167,225**		**42,360**

Management believes that the carrying amount of these investments approximates their fair values.

(in thousands roubles)

9. Long-Term and Short-Term Investments, net (continued)

Purchase of share in OJSC “Svyazintech”

In accordance with the resolution of the extraordinary meeting of the Company’s shareholders held on February 14, 2005 the Company acquired 11% of shares in OJSC “Svyazintech” for 12,591.

OJSC “Svyazintech” was established in 2005 for the implementation of Amdocs billing software in the companies of OJSC “Svyazinvest” Group (the parent company).

10. Long-term accounts receivable and other assets

As of December 31, 2005 and 2004 long-term accounts receivable and other assets comprised the following:

	2005	2004
Long-term accounts receivable	32,529	96,910
Long-term loans given to employees	53,276	81,811
Total	**85,805**	**178,721**

As of December 31, 2005 long-term loans given to employees are accounted at amortized cost using the effective interest rate of 21%.

11. Long-Term Advances Given, net

As of December 31, 2005 and 2004 long-term advances given to suppliers of equipment comprised the following:

	2005	2004
Advances given for capital construction	443,278	268,895
Acquisition and implementation of Oracle E-Business Suite software (Note 6)	111,310	52,615
Implementation of Amdocs Billing Suite software (Note 6)	119,797	–
Provision for impairment of advances	(3,847)	(1,648)
Total	**670,538**	**319,862**

12. Inventories

Inventories as of December 31, 2005 and 2004 comprised the following:

	2005	2004
Cable, materials and spare parts for telecommunications equipment	172,541	218,701
Construction materials, fuels and instruments	87,580	89,795
Finished goods and goods for resale	37,341	62,348
Other inventories	241,205	180,461
Total	**538,667**	**551,305**

(in thousands roubles)

13. Accounts Receivable, net

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

	2005	2004
Trade receivables – telecommunication services	2,464,226	2,612,498
Other accounts receivable	208,425	139,898
Provision for impairment of receivables	(819,525)	(999,265)
Total	**1,853,126**	**1,753,131**

Accounts receivable for telecommunication services detailed by major customer groups were as follows:

	2005	2004
Residential customers	1,205,324	979,794
Corporate customers	586,116	684,702
Governmental customers	154,002	210,552
Tariff compensation from the state budget	518,784	737,450
Total	**2,464,226**	**2,612,498**

The Company invoices its governmental and corporate customers on a monthly basis. The Company sends monthly payment requests and substantially relies upon these customers to remit payments based on the received payment requests. All customer payments are based upon tariffs, denominated in roubles, in effect at the time the calls are made.

As of December 31, 2005 the debt for tariff compensation from the state budget related to granting privileges to certain categories of subscribers amounted to 21.05% of total accounts receivable (2004 – 28.23%).

In 2005 the Company collected from the federal budget receivable for tariff compensation of 185,382.

The following summarizes the changes in the provision for impairment of account receivable, other current assets and long-term advances given:

	2005	2004
Balance as of January 1	**1,017,417**	**946,003**
Provision/(recovery of provision) for the year	(66,234)	297,092
Trade receivables write-off	(109,551)	(225,678)
Balance as of December 31	**841,632**	**1,017,417**

The impairment loss for 2005 in the amount of 66,234 (2004 – accrual in amount of 297,092) was recognized in the Consolidated statement of operations.

(in thousands roubles)

14. Other Current Assets, net

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

	2005	2004
VAT receivable	1,631,356	1,272,874
Deferred expenses	155,086	165,160
Prepayments and advance payments	310,704	381,210
Other prepaid taxes	16,424	27,970
Settlements with personnel	35,208	42,657
Other receivables and current assets	148,998	105,218
Provision for impairment of other current assets	(18,260)	(16,504)
Total	**2,279,516**	**1,978,585**

15. Cash and Cash Equivalents

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

	2005	2004
Cash on hand and at banks	507,117	344,647
Short-term deposits	–	90,254
Other cash equivalents	26,014	3,672
Total cash and cash equivalents	**533,131**	**438,573**

16. Significant Non-Cash Transactions

In 2005 the Company received telecommunication equipment in the amount of 3,516 (2004 – 165,405) under leasing terms.

The gross book value of property, plant and equipment, which were received on vendor financing terms in 2005, amounted to 0 (2004 – 96,520).

Non-cash transactions above have been excluded from the consolidated statement of cash flows.

17. Share Capital

	Number of shares outstanding (thousands)	Par value	Carrying value
As of December 31, 2003			
Preference	12,011,402	1,801,710	2,671,760
Ordinary	3,908,420	586,263	869,371
As of December 31, 2004	**15,919,822**	**2,387,973**	**3,541,131**
Preference	12,011,402	1,801,710	2,671,760
Ordinary	3,908,420	586,263	869,371
As of December 31, 2005	**15,919,822**	**2,387,973**	**3,541,131**

17. Share Capital (continued)

All shares have a par value of 0.15 Roubles. The difference between the total par value and the total carrying value of share capital represents the effects of inflation accumulated trough January 1, 2003.

The ordinary shareholders are entitled to one vote per share.

Preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to the reorganization and liquidation of the Company, and in relation to changes and amendments to the Company's charter which restrict the rights of preference shareholders. The preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share of 10% of the Russian accounting net income for the year. If the Company fails to pay the above mentioned dividends, or has no profits in any year, the preferred shareholders have the right to vote in the general shareholders' meeting. Owners of the preferred shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting in which a decision not to pay (or to pay partially) dividends on preferred shares has been taken. Annual amount of dividends on preference shares may not be less than dividends on ordinary shares. The preference shareholders participate in earnings along with ordinary shareholders. Accordingly, the Company's preferred shares are considered participating equity instruments for the purpose of earnings per share calculations (refer to Note 28).

In 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 the number of owned shares.

Distributable earnings of the parent company are limited to its retained earnings, as mandated by statutory accounting rules. Statutory retained earnings of the Company as of December 31, 2005 and 2004 amounted to 6,721,202 and 6,169,180, respectively.

In accordance with the Russian legislation dividends may only be declared to the shareholders of the Company from net income as shown in the Company's Russian statutory financial statements. The Company reported net income of 708,127 and 656,514 in its statutory financial statements in 2005 and 2004, respectively.

Dividends were declared in 2005 in respect of 2004 to holders of ordinary shares and preference shares of Rouble 0.012872 per ordinary share (2004 – Rouble 0.00858 per ordinary share) and Rouble 0.016106 per preference share (2004 –Rouble 0.03841 per preference share). See also Note 29.

In September 2001 the Company executed a depositary agreement with JP Morgan Chase Bank regarding a placement of American Depositary Receipts (ADRs), Level 1. In accordance with the depositary agreement, each ADR represents 800 ordinary shares of the Company.

(in thousands roubles)

17. Share Capital (continued)

The following table represents ADR registration for 2003-2005:

Date	ADR (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary Shares %	Charter Capital %
December 31, 2003	**755,669**	**604,535,200**	**5.03%**	**3.80%**
Additions 2004	808,400	646,720,000	–	–
December 31, 2004	**1,564,069**	**1,251,255,200**	**10.42%**	**7.86%**
Additions 2005	583,147	466,517,600	–	–
December 31, 2005	**2,147,216**	**1,717,772,800**	**14.30%**	**10.79%**

Currently the ADR’s are traded on the following stock markets:

Stock market	CUSIP(WKN)	ADR ticker	ISIN
Over-the-counter (OTC) market (USA)	825,735,103	SBTLY	
Frankfurt Stock Exchange (FSE)	260,452	SBTLy.F	US8257351036
Berlin Stock Exchange (BerSE)	260,452	SBTLy.BE	US8257351036

The Company’s shareholding structure as of December 31, 2005 was as follows:

	Ordinary shares		Preference shares		
	Number (thousands)	%	Number (thousands)	%	Total
OJSC “Svyazinvest”	6,068,602	51	–	–	6,068,602
Other legal entities	3,478,438	29	3,023,416	77	6,501,854
ADR holders	1,717,773	14	–	–	1,717,773
Individuals	746,589	6	885,004	23	1,631,595
Total	**12,011,402**	**100**	**3,908,420**	**100**	**15,919,822**

(in thousands roubles)

18. Borrowings

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

	Interest rate	2005	2004
Short-term borrowings			
Bank loans			
Bank loans (Roubles)	10-10.5%	146,700	719,087
Bank loans (US Dollars)	Libor+2.2%	292,979	35,305
Bank loans (Euro)		551	5,054
Total bank loans		**440,230**	**759,446**
Promissory notes			
Promissory notes (Roubles)	12.0%	296,481	458,756
Promissory notes (USD)		1,117	430,610
Total promissory notes		**297,598**	**889,366**
Other borrowings (Roubles)		727	2,208
Total short-term borrowings		**738,555**	**1,651,020**
Long-term borrowings			
Bank loans			
Bank loans (Roubles)	8.5-13%	2,534,499	2,707,649
Bank loans (USD)	4.5-8%	870,752	534,486
Bank loans (Euro)	6-8.5%	330,465	320,274
Total bank loans		**3,735,716**	**3,562,409**
Bonds (Roubles)	7.85-14.5%	**8,974,037**	**4,053,952**
Vendor financing			
Vendor financing (Roubles)		–	24
Vendor financing (US Dollars)	8.0%	61,820	99,279
Total vendor financing		**61,820**	**99,303**
Promissory notes			
Promissory notes (Roubles)		7,665	7,635
Promissory notes (US Dollars)	5.98%	233,584	213,582
Total promissory notes		**241,249**	**221,217**
Other borrowings (Roubles)		**5,373**	**34,198**
Less: Current portion of long-term borrowings		**(3,727,359)**	**(2,642,567)**
Total long-term borrowings		**9,290,836**	**5,328,512**

As of December 31, 2005 short-term and long-term borrowings included interest payable in the total amount of 493,736 (2004 –369,270).

(in thousands roubles)

18. Borrowings (continued)

As of December 31, 2005 borrowings are secured by property, plant and equipment with the carrying value of approximately 4,602,000 (2004 – 7,783,000).

As of December 31, 2005 borrowings had the following maturity schedule:

Maturity date	Bank loans	Bonds	Vendor financing	Promissory notes	Other	Total
2006	2,000,181	1,867,936	61,820	531,182	4,795	4,465,914
2007	1,157,567	2,167,012			1,305	3,325,884
2008	329,770	2,963,587		24		3,293,381
2009	677,574					677,574
2010 and after	10,854	1,975,502		7,641		1,993,997
Total	**4,175,946**	**8,974,037**	**61,820**	**538,847**	**6,100**	**13,756,750**

The Company's borrowings are denominated in the following currencies:

Currency	2005	2004
Russian Roubles	11,965,482	7,983,509
Euro	331,016	325,328
US dollars	1,460,252	1,313,262
Total	**13,756,750**	**9,622,099**

The Company has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Short-Term Borrowings

Bank Loans

Most of short-term borrowings denominated in Roubles represent bank loans received to finance working capital. Most of these loans are collateralized with telecommunication equipment.

CJSC Vneshtorgbank

Short-term borrowings from CJSC Vneshtorgbank mostly represent a rouble denominated loan received in December 2005 in the amount of 275,500. The loan accrues interest at 10.5% per annum and is payable on a monthly basis. As of December 31, 2005 the outstanding amount was 120,000. The loan is collateralized with fixed assets valued at 602,329.

Ost-West Handelsbank

Short-term borrowing of the Company's subsidiary CJSC "Baikalwestcom" from Ost-West Handelsbank represents a US dollar denominated loan received in May 2005. The loan accrues interest at floating rate LIBOR + 2.2%. The principle amount outstanding as of December 31, 2005 was 287,825. The loan is not secured.

18. Borrowings (continued)

Short-Term Borrowings (continued)

Promissory notes

In 2005 the Company issued rouble denominated promissory notes in the amount of 267,857 to Investment company “Capital and C”. The notes are due in 2006. Effective interest rate for the promissory notes was 12%.

Long-Term Borrowings

Bank Loans

OJSC Gazprombank

Long-term borrowings from OJSC Gazprombank mostly represent a credit line. The agreement terminates in May 2007. The loan accrued interest at 13.5% and payable on a monthly basis. On November 14, 2005 the interest rate was decreased to 11% per annum. As of December 31, 2005, the outstanding amount was 140,053 including interest payable. The loan is collateralized with fixed assets valued at 567,807.

OJSC Vnesheconombank

In 1995-1996 the Ministry of Finance of the Russian Federation provided long-term financing to the Company to purchase telecommunications equipment from various foreign vendors. OJSC Vnesheconombank acted as the agent on behalf of the Government of Russian Federation.

As of December 31, 2005 the outstanding amount of principal part of loan was 139,726, including current portion in the amount of 137,812. The loan is denominated in EURO. The interest under these agreements is accrued at floating rate Plafond C, which in 2005 approximated 6.5%, plus 2% per annum. The loan is not secured.

As described in Note 30 “Contingencies and operating risks” in July 2005 the Company received a claim for immediate repayment of outstanding amount overdue to the bank.

OJSC Sberbank

Long-term borrowings from OJSC Sberbank mostly represent a rouble denominated loan received in March 2005 to the amount of 800,000. The loan matures in 2009. The loans accrues interest at 13% per annum and is payable on a monthly basis. As of December 31, 2005 the outstanding amount was 800,000. The loan is collateralized with fixed assets valued at 833,838.

18. Borrowings (continued)

Long-Term Borrowings (continued)

Bank Loans (continued)

CommerzBank (Eurasia)

Long-term borrowing from CommerzBank represents a credit line in the amount of 300,000 received in November 2004. The agreement terminates in November 2007. The loan accrues interest at 8.5% per annum. The principle amount outstanding as of December 31, 2005 was 300,000. The loan is not secured.

Long-term borrowing from CommerzBank represents a credit line in the amount of 300,000 received in December 2004. The agreement terminates in June 2006. The loan accrues interest at 9% per annum. The principle amount outstanding as of December 31, 2005 was 300,000. The loan is not secured.

Promsvyazbank

Long-term borrowing from Promsvyazbank represents a credit line in the amount of 500,000 received in 2005. The loan matures in December 2007. The loan accrues interest at 11.5% per annum. The principle amount outstanding as of December 31, 2005 was 414,000. The loan is not collaterized.

Long-term borrowing of Company's subsidiary CJSC "Baikalwestcom" from Promsvyazbank represents a US dollar denominated loan agreement received in April 2005. The loan matures in October 2008. The loan accrues interest at 8% per annum. The principle amount outstanding as of December 31, 2005 was 431,738. The loan is not secured.

Bonds

In June 2003 the Company registered the issue of 1,530,000 interest-bearing bonds, series 03, with par value of 1,000 Roubles each. The bonds have 6 semiannually coupons. Coupon interest rate is set at 14.5% per annum. The bonds mature in 1,092 days from the date of issue. As of December 31, 2005 the bond liability is classified as current portion of long-term borrowings.

In July 2004 the Company registered the issue of 2,000,000 interest-bearing bonds, series 04, with par value of 1,000 Roubles each. The bonds have 6 semiannually coupons. Coupon interest rate is set at 12.5% per annum. The bonds mature in 1,092 days from the date of issue.

In April 2005 the Company registered the issue of 3,000,000 interest-bearing bonds, series 05, with par value of 1,000 Roubles each. The bonds have 6 semiannually coupons. Coupon effective interest rate is set at 9.2% per annum. The bonds mature in 1,092 days from the date of issue in April 2008.

In September 2005 the Company registered the issue of 2,000,000 interest-bearing bonds, series 06, par value of 1,000 Roubles each. The bonds have 10 semiannually coupons. The effective interest rate set at 7.85% per annum. The bonds mature in 5 years from the date of issue in September 2010. These bonds did not provide put options.

(in thousands roubles)

18. Borrowings (continued)

Long-Term Borrowings (continued)

Bonds (continued)

In June 2004 the Company registered the issue of 300,000 interest-bearing bonds issued by its subsidiary OJSC "Baykalwestcom", par value of 1,000 Roubles each. Bonds have 6 semi-annual coupons. Coupon effective interest rate was set at 11.43% per annum. The bonds mature in 1,092 days from the date of issue. These bonds provided put options, which were exercised in 2005 to the total amount of 100,000.

Vendor financing

Ericsson Nikola Tesla

In 1998 and 2001 the Company entered into several agreements with Ericsson Nikola Tesla, under which Ericsson Nikola Tesla delivered telecommunication equipment to the Company. The amounts payable under these agreements are denominated in USD. The agreements do not provide for interest payments thus the amount of liability as of December 31, 2005 represents the present value of future payments. Interest is accrued at a weighted average interest rate on the Company's interest bearing borrowings obtained in appropriate periods.

Promissory Notes

Amdocs Billing Suite software was supplied in December 2004 by IBM Eastern Europe/Asia, in exchange of which the Company issued dollar denominated promissory notes. The outstanding amount of these notes as of December 31, 2005 was 230,233.

19. Finance Lease Obligations

The Company has finance lease contracts for telecommunication equipment. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments as of December 31, 2005 and 2004 are as follows:

	2005		2004	
	Minimum lease payments	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Current portion	522,875	311,788	659,923	367,086
1 to 5 years	749,336	570,463	1,270,835	877,673
Over 5 years	50	44	105	83
Total minimum lease payments	1,272,261		1,930,863	
Less amounts representing finance charges	(389,966)		(686,021)	
Present value of minimum lease payments	**882,295**	**882,295**	**1,244,842**	**1,244,842**

(in thousands roubles)

19. Finance Lease Obligations (continued)

In 2005 and 2004 the Company’s primary lessors were OJSC “RTC-Leasing” and LLC “Promsvyazleasing”. In 2005 the effective interest rate on lease liabilities ranged from 22% to 33% per annum (2004 - 24% to 33% per annum).

OJSC “RTC-Leasing” purchases telecommunication equipment from domestic and foreign suppliers and provides such equipment to the Company under finance lease agreements. The Company’s obligations under finance leases to OJSC “RTC-Leasing” as of December 31, 2005 amounted to 841,164 (2004 – 1,102,624).

OJSC “RTC-Leasing” is entitled to adjust the lease payment schedule in the event of a change in certain economic conditions, in particular, a change in the refinancing rate of the Central Bank of the Russian Federation.

As of December 31, 2005 finance lease obligations denominated in US dollars amounted to 27,788 (2004 – 101,385 respectively).

Guarantees issued to OJSC “RTC-Leasing” are described in Note 30.

20. Accounts Payable, Accrued Expenses and Advances Received

As of December 31, 2005 and 2004 accounts payable and other current liabilities comprised the following:

	2005	2004
Trade accounts payable	543,891	366,435
Advances received from subscribers	693,031	533,392
Accounts payable for capital investments	1,024,991	867,988
Salaries and wages	1,217,490	714,573
Other accounts payable	104,000	116,932
Total	**3,583,403**	**2,599,320**

35,880 and 1,488 of accounts payable for capital investments are denominated in foreign currency, US dollars and EUR, as of December 31, 2005 and 2004 respectively. Other accounts payable include outstanding settlements with suppliers and contractors in relation to services for operating activities, to agents and other.

21. Taxes Payable

As of December 31, 2005 and 2004, taxes payable comprised the following:

	2005	2004
Value-added tax	660,779	681,669
Property tax	113,475	80,230
Unified social tax	80,634	91,779
Other taxes	41,318	54,928
Total	**896,206**	**908,606**

(in thousands roubles)

21. Taxes Payable (continued)

Included in value added tax payable is the amount of 399,338 (2004 – 425,485), which represents deferred value added tax, which is only payable to the tax authorities when the underlying receivables are recovered or written off.

Starting January 1, 2006 amendments to the Tax Code relating to rules of determination of the taxable base were introduced. These are described in Note 34.

22. Pensions and Other Post-Employment Benefit Plans

In addition to statutory pension benefits, the Company also contributes to post-employment benefit plans, which cover most of its employees.

The defined benefit pension plan provides an old age retirement pension and disability pension. The plans provide for payment of retirement benefits starting from the statutory retirement age, which is currently 55 for women and 60 for men. The benefits are based on a formula specific to each branch of the Company. According to the formula the benefits depend on a number of parameters, including the relative pay of participants and their length of service in the Company at retirement. The benefits do not vest until and are subject to the employee retiring from the Company on or after the above-mentioned ages.

The non-government pension funds Telecom-Soyuz, which is related to the Company (Note 32), maintains the defined benefit pension plan. The Company makes contributions to the pension funds in the amount set forth in the agreement with the pension fund.

The Company further provides other long-term employee benefits such as a death-in-service payments and lump-sum payment upon retirement of a defined benefit nature.

Additionally the Company provides financial support of a defined benefit nature to its old age and disabled pensioners.

As of December 31, 2005 there were 42,310 active participants to the defined benefit pension plans of the Company (as of December 31, 2004 – 46,190).

As of December 31, 2005 and 2004 the net liabilities of the defined benefit pension and other post-employment benefit plans comprised the following:

	2005	2004
Present value of defined benefit obligation	4,856,864	4,951,137
Fair value of plan assets	(188,792)	(245,226)
Present value of unfunded obligations	**4,668,072**	**4,705,911**
Unrecognized past service cost	(1,908,544)	(2,930,021)
Unrecognized actuarial losses	(1,094,269)	(946,272)
Net pension liability	**1,665,259**	**829,618**

(in thousands roubles)

22. Pensions and Other Post-Employment Benefit Plans (continued)

As of December 31, 2005 and 2004 management estimated the employees' average remaining working life at 10 years.

The amount of net expense for the defined benefit pension plans recognized in 2005 and 2004 is as follows:

	2005	2004
Interest cost	469,083	133,992
Service cost	263,477	73,203
Expected return on plan assets	(27,548)	(18,737)
Actuarial (gains)/losses	243,491	(6,115)
Amortization of past service cost	125,810	99,546
Past service cost recognized in current year	33,329	–
Curtailment or final settlement effect	37,519	–
Net expense for the defined benefit pension plans	**1,145,161**	**281,889**

The movements in the net liability for defined benefit pension and other post-employment benefit plans in 2005 and 2004 are as follows:

	2005	2004
Net liability as of January 1	829,618	658,063
Net expense for the year	1,145,161	281,889
Contributions	(309,520)	(110,334)
Net liability as of December 31	**1,665,259**	**829,618**

As of December 31, 2005 and 2004 the principle actuarial assumptions for the defined benefit pension and other post-employment benefit plans were as follows:

	2005 Per annum	2004 Per annum
Discount rate	**7.00%**	9.18%
Expected return on plan assets	**7.05%**	9.33%
Future salary increases	**8.15%**	9.18%
Relative pay increase (career progression)	**1.00%**	1.00%
Rate used for calculation of annuity value	**6.00%**	6.00%
Increase in financial support benefits	**5.00%**	6.00%
Staff turnover	**7.00%**	7.00%
Mortality tables (source of information)	**USSR 1985/86**	Russia 1998

(in thousands roubles)

22. Pensions and Other Post-Employment Benefit Plans (continued)

Movements in the net assets of defined benefit pension and other post-employment benefit plans during 2005 and 2004 were as follows:

	2005	2004
Fair value of plan assets as of January 1	245,226	168,433
Actual return on plan assets	41,326	9,170
Employer contributions	309,520	110,334
Settlements	(197,731)	–
Benefits paid	(209,549)	(42,711)
Fair value of plan assets as of December 31	**188,792**	**245,226**

During 2005 the Company changed the provisions of the defined benefit pension and other post-employment benefit plan thus extending its liabilities under pension agreements.

Actual return on the plan assets for 2005 was 2.8%.

As of December 31, 2005 the assets of the defined benefit pension and other post-employment benefit plans included shares of the Company which made 0.04 % of the total plan assets (as of December 31, 2004 – 0.11%).

23. Revenues

Revenues for the years ended December 31, 2005 and 2004 comprised the following:

By revenue types	2005	2004
Local telephone calls	7,001,830	5,282,655
Long distance telephone services – domestic	6,433,809	6,828,904
Cellular services	6,495,775	4,043,872
Installation and connection fees	1,426,092	1,534,944
New services	1,190,535	900,879
Revenues from national operators	1,323,310	567,411
Long distance telephone services – international	955,894	982,578
Radio and TV broadcasting	359,265	344,312
Rent of telephone channels	299,791	160,609
Data transfer and telemetric services	347,689	340,539
Documentary services	51,058	74,101
Other telecommunications services	861,709	824,999
Other revenues	685,382	716,605
Total	**27,432,139**	**22,602,408**

(in thousands roubles)

23. Revenues (continued)

The Company identifies revenue by the following major customer groups:

Customer groups	2005	2004
Residential customers	15,673,795	13,054,054
Corporate customers	9,666,999	6,825,177
Governmental customers	2,075,559	1,779,034
Tariff compensation from the state budget	15,786	944,143
Total	**27,432,139**	**22,602,408**

24. Other Operating Expenses

Other operating expenses, net for the years ended December 31, 2005 and 2004 comprised the following:

	2005	2004
Lease of premises	277,185	208,839
Agency fees	630,511	293,473
Fire and other security services	233,459	196,287
Cost of goods sold	93,663	98,349
Universal service fund payments	204,087	–
Non-commercial partnership expenses (Note 32)	167,004	162,200
Advertising expenses	323,381	176,261
Audit and consulting fees	106,284	70,944
Charitable contributions	116,961	86,613
Insurance	153,795	182,509
Business travel expenses and representation costs	161,719	131,846
Bank services fees	90,442	62,877
Payments to managing bodies	62,018	56,995
Education expenses	62,624	44,836
Transportation services	56,601	59,922
Post services	65,550	32,796
Civil Defense	85,798	61,952
Payments to Gossvyaznadzor	–	58,831
Other expenses	751,558	507,031
Total	**3,642,640**	**2,492,561**

In 2005 the Company incurred an expense on payments to Universal service fund. These payments are prescribed by the Federal Law on Comminications and Government Decree # 243 of April 21, 2005. Payments are calculated as 1.2% of the revenues from the telecommunication services less revenues from interconnection services. Related contingency is disclosed in Note 30.

Other expenses include expenses related to fines and penalties, social expenditures, billing and cash collection, cost of documentary, pay phone and other telecommunication services, notarial and legal services and other operating expenses.

(in thousands roubles)

25. Interest Expense, net

Interest expense, net for the years ended December 31, 2005 and 2004 comprised the following:

	2005	2004
Interest income	89,016	39,536
Interest expense	(790,071)	(406,406)
Interest expense accrued on finance leases	(298,033)	(415,514)
Interest expense on vendor financing	(5,675)	(2,820)
Total	**(1,004,763)**	**(785,204)**

26. Gain on Sale of Subsidiaries, Associates and Other Investments, net

Gain from sale of subsidiaries, associates and other investments for the year ended December 31, 2005 and 2004 comprised the following:

	2005	2004
Gain on disposal of share of LLC “Private security firm “Ekrantelecom”	4,318	–
Gain on disposal of share of OJSC “NGTS-Page”	2,804	–
Gain on sale of shares of CJSC “Uzhno-Sibirskaya sotovaya svyaz"	–	29,224
Gain on sale of shares of CJSC “Novosibirskaya Sotovaya svyaz - 450”	–	7,358
Gain on sale of shares of CJSC “Omskaya Sotovaya svyaz”	–	3,322
Gain on sale of shares of CJSC “Mobilnie Sistemi Svyazi”	–	62,050
Gain on sale of shares of CJSC “Sibintertelecom”	77,053	–
Other gain (loss) on investments	1,877	4,510
Total	**86,052**	**106,464**

27. Income Tax

The income tax charge for the years ended December 31, 2005 and 2004 comprised the following:

	2005	2004
Current income tax expense	(1,090,900)	(924,408)
Prior year income tax adjustments	17,388	(31,619)
Deferred income tax benefit	266,693	15,798
Total income tax for the year	**(806,819)**	**(940,229)**

(in thousands roubles)

27. Income Tax (continued)

A reconciliation of the theoretical tax charge to the actual income tax charge is as follows:

	2005	2004
Profit before income tax	2,422,063	2,835,314
Statutory income tax rate	24%	24%
Theoretical tax charge at statutory income tax rate	(581,295)	(680,475)
Increase (decrease) resulting from the effect of:		
Prior-year income tax adjustments	17,388	(31,619)
Non-taxable income	17,468	29,148
Non-deductible expenses	(262,968)	(270,858)
Other factors	2,588	13,575
Total income tax charge for the year	**(806,819)**	**(940,229)**
Effective income tax rate	**33%**	**33%**

The composition of deferred income tax assets and liabilities as of December 31, 2005 and 2004 was as follows:

	2005	2004	Origination and reversal of temporary differences
Deferred tax assets			
Accounts payable and accrued expenses	248,509	218,698	29,811
Accounts receivable	29,907	115,209	(85,302)
Finance lease obligations	94,287	57,517	36,770
Pension liabilities	291,738	–	291,738
Other	12,262	16,178	(3,916)
Total deferred tax assets	**676,703**	**407,602**	**269,101**
Deferred tax liabilities			
Property, Plant and Equipment	(2,006,638)	(2,012,673)	6,035
Intangible assets	(199,623)	(166,338)	(33,285)
Effect from investments valuation	(28,639)	(4,885)	(23,754)
Other	(1,112)	(2,200)	1,088
Total deferred tax liabilities	**(2,236,012)**	**(2,186,096)**	**(49,916)**
Deferred Tax Liabilities, net	**(1,559,309)**	**(1,778,494)**	**219,185**

(in thousands roubles)

27. Income Tax (continued)

The movement in net deferred tax liabilities for the years ended December 31, 2005 and 2004 is presented below:

	2005	2004
Deferred tax liability, net as of January 1	**(1,778,494)**	**(1,810,481)**
Deferred tax income	266,693	15,798
Deferred tax income (expense) related to changes in fair value of investments available-for-sale	(28,639)	13,274
Deferred tax liabilities of subsidiaries disposed	–	2,915
Deferred tax liabilities of subsidiaries acquired	(18,869)	–
Net deferred tax liability as of December 31	**(1,559,309)**	**(1,778,494)**

In the context of the Company’s current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even if there is a net consolidated tax loss. Therefore, a deferred tax asset of one company is not offset against a deferred tax liability of another company.

28. Earnings per Share

Earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the period.

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

	2005	2004
Profit for the year attributable to equity holders of the parent	1,625,786	1,893,662
Weighted average number of shares outstanding (thousands) (see Note 17)	15,919,822	15,919,822
Basic and diluted earnings per share attributable to equity holders of the parent	**0.10212**	**0.11895**

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

29. Dividends Declared for Distribution

Dividends declared in 2005 based on 2004 results:

Dividends on ordinary shares – 0.012872 Roubles per share	154,610
Dividends on preference shares – 0.016106 Roubles per share	62,949
Total	**217,559**

29. Dividends Declared for Distribution (continued)

Dividends paid to shareholders are determined by the Board of Directors and declared and officially approved at the annual shareholders' meeting. Earnings available for dividends are limited to profits determined in accordance with the Russian statutory accounting regulations. Dividends are accrued in the year they are declared and approved.

30. Contingencies and Operating Risks

Operating Environment of the Company

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 and legal reforms.

Legal system

The Russian legal system is characterized by (1) inconsistencies between and among laws, presidential decrees, and Russian governmental, ministerial and local orders, decisions, and resolutions and other acts; (2) conflicting local, regional and federal rules and regulations; (3) the lack of judicial and administrative guidance on interpreting legislation; (4) the relative inexperience in legislation interpretation; and (5) a high degree of discretion on the part of governmental authorities.

Management is unable to estimate what developments may occur in respect of the Russian legal system or the resulting effect of any such developments on the Company's financial position or future results of operations.

In the nearest future the Company's activity could be subject to judicial reform factors. No adjustments related to these uncertainties were recognized in the consolidated statements.

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 Company may be challenged by the relevant regional and federal 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 unfavourable 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.

30. Contingencies and Operating Risks (continued)

Insurance Coverage

During 2005 the Company did not maintain insurance coverage on a significant part of its property, plant and equipment, business interruption losses or third party liability in respect of property or environmental damage arising from accidents relating to the Company's property or the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that losses resulting from destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Legal Proceeding

In July 2005 the Ministry of Finance of the Russian Federation filed a claim against the Company demanding immediate repayment of debts outstanding to Vnesheconombank as of July 27, 2005 in the amount of 186,941 (5,411 thousand euro).

In addition, during the year the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, except as described above, there are no current legal proceedings of other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these consolidated financial statements.

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 2006 to 2012. 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 Company.

The Company 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.

The Government of the Russian Federation is in process of liberalization of telecommunications market for which additional licenses on providing DLD/ILD has been granted to a number of alternative operators. It is possible that the Company's future results of operations and cash flows could be materially affected by the increased competition in a particular period but the effect can not be currently determined.

30. Contingencies and Operating Risks (continued)

Licenses (continued)

The Decision of the Russian Government # 87 “On Endorsement of the list of the names of communication services entered in licenses and the lists of license terms” of February 18, 2005 (amended as of December 29, 2005 # 837) prescribed types of connection services that are to be included into licenses and list of licensing terms. Licensing terms defined in previously issued licenses are effective unless they contradict the current regulations. The Company considered significant effect of new requirements related to the interconnection settlements, traffic transmission and mobile services on current licensing terms for licenses issued prior to January 1, 2004 and in November 2005, the Company submitted to Federal Service for Communications Supervision (Rossvyaznadzor) its request for changes and amendments to the existing License for provision of local, intercity telecommunications services in order to bring the License terms in compliance with the requirements set by Governmental Decree # 87 dated February 18, 2005. All necessary amendments to the licenses were received.

Guarantees Issued

The Company mainly guaranteed credit line facilities provided by Sberbank to OJSC “RTC-Leasing”, a lessor of telecommunication equipment, as of December 31, 2005 (Note 19). The total guarantees amounted to 901,194 (2004 – 1,344,082).

Universal service fund payments

Industry regulations effective as of December 31, 2005 did not provide clear guidance with respect to the method of calculation of the allocation to the fund that may lead to uncertainty in composition of the basis for such payments. Accordingly there is a risk of incorrect calculation of the payments to this fund.

31. Contractual Commitments

Capital Investments

As of December 31, 2005 the Company has commitments for capital investments into modernization and expansion of its network in the amount of 306,125 (2004 – 252,131).

32. Balances and Transactions with Related Parties

For the purposes of these financial statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(in thousands roubles)

32. Balances and Transactions with Related Parties (continued)

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at December 31, 2005 are detailed below.

Rendering Services

During the year ended December 31, 2005 and 2004 the Company rendered significant amount of services to the following related parties:

Related party	Relationship	Type of sales	2005	2004
OJSC "Rostelecom"	Controlled by OJSC "Svyazinvest"	Telecommunication services	869,652	813,429
CJSC "TeleRoss Novosibirsk"	Associate company	Telecommunication services	–	10,588
CJSC "Novocom"	Associate company	Telecommunication services	8,265	9,388
CJSC "ZS&TKC N"	Associate company	Telecommunication services	4,453	5,601
CJSC "ZS&TKC N"	Associate company	Rent of premises	1,168	1,346
CJSC "ATC-41"	Associate company	Telecommunication services	7,877	1,667

Purchases

During the year ended December 31, 2005 and 2004 the following related parties rendered significant amount of services to the Company:

Related party	Relationship	Type of sales	2005	2004
OJSC "Rostelecom"	Controlled by OJSC "Svyazinvest"	Telecommunication services	2,482,576	2,335,408
NPF "Telecom – Soyuz"	Controlled by OJSC "Svyazinvest"	Pension plans	870,161	195,013
Non-commercial partnership "Center for Research of Problems in Development of Telecommunications"	Controlled by OJSC "Svyazinvest"	Membership fees	167,004	162,200
OJSC "Svyazinvest"	Parent company	Dividends paid	75,252	49,656
Non-commercial partnership "Center for Research of Problems in Development of Telecommunications"	Controlled by OJSC "Svyazinvest"	Agent agreement	634	26,300
CJSC "Registrator – Svyaz"	Associate company	Maintenance of shareholders' register	2,055	
CJSC "ATC-41"	Associate company	Telecommunication services	2,132	2,386
LLC "Giprosvyaz-Sibir"	Associate company	Engineering	3,336	12,454

(in thousands roubles)

32. Balances and Transactions with Related Parties (continued)

Settlements with Related Parties

Accounts receivable

As of December 31, 2005 and 2004 significant balances of accounts receivable from related parties were as follows:

Related party	Relationship	Type of receivables	2005	2004
OJSC “Svyazintech”	Controlled by OJSC “Svyazinvest”	Advances given for software implementation services	119,797	–
Non-commercial partnership “Center for Research of Problems in Development of Telecommunications”	Controlled by OJSC “Svyazinvest”	Agent agreement	104,771	52,615
LLC “Giprosvyaz-Sibir”	Associate company	Engineering	1,044	–
CJSC “ATC-41”	Associate company	Maintenance services	2,229	132
CJSC “ZS&TKC N”	Associate company	Telecommunication services	17,739	13,389
CJSC “ZS&TKC N”	Associate company	Other services	3,250	2,753

Accounts payable

As of December 31, 2005 and 2004 significant balances of accounts payable to related parties were as follows:

Related party	Relationship	Type of payables	2005	2004
OJSC “Rostelecom”	Controlled by OJSC “Svyazinvest”	Telecommunication services	161,339	158,780
LLC “Giprosvyaz-Sibir”	Associate company	Engineering	–	3,540

OJSC “Svyazinvest”

The Company’s parent entity OJSC “Svyazinvest” was wholly owned by the Russian Government until July 1997 when the Government sold 25% plus one share of the Charter Capital of OJSC “Svyazinvest” to the private sector.

An effectively operating telecommunications and data transmission facility is of great importance to Russia for various reasons including economic, strategic and national security considerations. Consequently, the Government has and may be expected to continue to exercise significant influence over the operations of OJSC “Svyazinvest” and its subsidiary companies.

32. Balances and Transactions with Related Parties (continued)

OJSC “Svyazinvest” (continued)

The Government’s influence is not confined to its share holdings in OJSC “Svyazinvest”. It has general authority to regulate tariffs, including domestic long distance tariffs. In addition, the Ministry of Information Technologies and Communications of the Russian Federation has control over the licensing of providers of telecommunications services.

OJSC “Rostelecom”

OJSC “Rostelecom”, a majority owned subsidiary of OJSC “Svyazinvest”, is the primary provider of domestic long distance and international telecommunications services in the Russian Federation. The annual expense associated with traffic carried by OJSC “Rostelecom” and terminated outside of the Company’s network is stated as interconnection charges. Further, OJSC “Rostelecom” uses the Company’s network to provide incoming long-distance and international traffic to its subscribers and partner operators.

Transactions undertaken by the Company with OJSC “Rostelecom” reported in the accompanying consolidated financial statements as of December 31, 2005 and 2004 and for the years then ended are presented in the tables above.

Transactions with Government Organizations

Government organizations are a significant element in the Company’s customer base, purchasing services both directly through numerous authorities and indirectly through their affiliates. The Company also renders services to other state-owned entities. Certain entities financed by the Government budget are users of the Company’s network. These entities are generally charged lower tariffs as approved by the Federal Antimonopoly Agency than those charged to other customers. In addition, the Government may by law require the Company to provide certain services to the Government in connection with national security and the detection of crime.

Government subscribers and tariff compensation accounted for approximately 27.3% of gross trade accounts receivable as of December 31, 2005 (2004 – 36.3%). Amounts outstanding from government subscribers and debt of social security organizations with regard to compensation of expenses related to granting privileges to certain category of subscribers, as of December 31, 2005 amounted to 672,786 (2004 – 948,002) (Note 13). Revenues from this category of subscribers are presented in Note 23.

Non-Commercial Partnership Centre for Research of Problems in Development of Telecommunications

Non-commercial partnership Centre for Research of the Problems in Development of Telecommunications (hereinafter “the Partnership”) is an entity OJSC “Svyazinvest” controls through its subsidiaries. The Company has an agreement with the Partnership, under which it provides funding for industry research and common administrative activities on behalf of the Company and other subsidiary and associates of OJSC “Svyazinvest”. Payments to the Partnership included in other operating expenses in the accompanying consolidated statement of operations for the year ended December 31, 2005 amounted to 167,004 (2004 – 162,200).

32. Balances and Transactions with Related Parties (continued)

NPF Telecom-Soyuz

In 2005 the Company signed centralised pension agreements with NPF "Telecom-Soyuz" (see Note 22). OJSC "Svyazinvest" holds the majority in the Board of Directors of NPF "Telecom-Soyuz" (hereafter "the Fund"). Payments from the Company to the Fund in 2005 amounted to 275,000 (2004 – 86,876).

Compensation to Key Management Personnel

Key management personnel comprise members of the Management Board and the Board of Directors of the Company, totalling 22 and 22 persons as of December 31, 2005 and 2004, respectively. Total compensation to key management personnel included in "Other operating expenses" in the statement of operations amounted to 36,392 and 30,907 for the years ended December 31, 2005 and 2004, respectively, and consists of remuneration for management services.

33. Financial Instruments and Risk Management Objectives and Policies

The Company's principal financial instruments comprise bank loans, finance leases and cash and short-term deposits. The main purpose of these instruments is to raise finance for the Company's operations. The Company has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Foreign Exchange Risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect items in the Company's statement of operations, balance sheet and/or cash flows. Foreign currency denominated liabilities (see Notes 18, 19 and 20) give rise to foreign exchange exposure.

The Company does not have arrangements to mitigate foreign exchange risks of the Company's operations.

As of December 31, 2005 the Company's liabilities in foreign currency were 1,854,936 (2004 – 1,741,463), including liabilities denominated in US dollars 1,523,920 (2004 –1,416,135) and Euro and other currencies 331,016 (2004 –325,328).

For the period from January 1, 2004 to December 31, 2005 the exchange rate of the Russian Rouble to the US Dollar decreased by approximately 3.7% and the exchange rate of the Russian Rouble to the Euro decreased by approximately 9.6%. The possible decrease in the exchange rate of the Russian Rouble may lead to an increase in the amount of the Company's borrowings, as well as it will cause difficulties in the attraction of funds including funds required for the refinancing of the existing debt.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates may negatively impact the Company's financial results.

(in thousands roubles)

33. Financial Instruments and Risk Management Objectives and Policies (continued)

Interest Rate Risk (continued)

The following table presents as of December 31, 2005 and 2004 the carrying amount by maturity of the Company's financial instruments that are exposed to interest rate risk:

As of December 31, 2005:	**< 1 year**	**1–5 years**	**> 5 years**	**Total**
Fixed rate				
Short-term obligations	445,581	–	–	**445,581**
Long-term obligations	3,258,702	9,122,914	7,665	**12,389,281**
Finance lease obligations	311,788	570,463	44	**882,295**
Floating rate				
Short-term obligations	292,974	–	–	**292,974**
Long-term obligations	468,657	160,257	–	**628,914**

As of December 31, 2004:	**<1 year**	**1-5 years**	**>5 years**	**Total**
Fixed rate				
Short-term obligations	1,651,020	–	–	1,651,020
Long-term obligations	2,084,246	5,142,694	7,635	7,234,575
Finance lease obligations	367,086	877,756	–	1,244,842
Floating rate				
Long-term obligations	458,321	278,183	–	736,504

Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Company that are not included into the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The Company has no significant interest-bearing assets other than those presented above.

Credit Risk

Credit risk is the risk that a counter-party will fail to discharge an obligation and cause the Company to incur a financial loss.

Financial assets, which are potentially subject to credit risk, consist principally of trade receivables. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Company has no significant concentrations of credit risk due to the significance of the client base and regular monitoring procedures over customers' and other debtors' ability to pay debts. A part of accounts receivable is represented by debts of state and other non-commercial organizations. Recovery of these debts is influenced by political and economic factors, however, management believes that as of December 31, 2005 there is no significant risk of loss to the Company beyond the provision already recorded.

(in thousands roubles)

33. Financial Instruments and Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The Company places cash on bank accounts in a number of Russian commercial financial institutions. Insurance of bank accounts is not provided by financial institutions operating in Russia. To manage the credit risk the Company places cash in different financial institutions and the Company’s management analyzes the risk of default of these financial institutions on a regular basis.

Fair Value

Fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction (except for forced sale or liquidation). Market prices are considered to be the best evidence of fair value.

Set out below is the comparison by category of carrying amounts and fair values of all of the Company’s financial instruments:

	2005		2004	
Financial instruments	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets				
Investments in associates	50,584	50,584	35,735	35,735
Long-term investments held to maturity	491	491	30,000	30,000
Long-term investments available for sale	76,108	76,108	42,360	42,360
Long-term accounts receivable	32,529	32,529	96,910	96,910
Long-term borrowings given	53,276	53,276	81,811	81,811
Accounts receivable	1,853,126	1,853,126	1,753,131	1,753,131
Short-term investments held to maturity	57,080	57,080	161,901	161,901
Short-term investments available for sale	91,117	91,117	–	–
Cash and cash equivalents	533,131	533,131	438,573	438,573
Total	**2,747,442**	**2,747,442**	**2,640,421**	**2,640,421**
Financial Liabilities				
Long-term bank loans	3,735,716	3,735,716	3,562,409	3,562,409
Long-term bonds	8,974,037	8,753,673	4,053,952	3,741,570
Long-term promissory notes	241,249	241,249	221,217	221,217
Long-term suppliers' credits	61,820	61,820	99,303	99,303
Long-term finance lease obligations	882,295	882,295	1,244,842	1,244,842
Accounts payable	3,583,403	3,583,403	2,599,320	2,599,320
Short-term bank loans	440,230	440,230	759,446	759,446
Short-term promissory notes	297,598	297,598	889,366	889,366
Total	**18,216,348**	**17,995,984**	**13,429,855**	**13,117,473**

34. Subsequent Events

Changes in settlements with OJSC "Rostelecom" in 2006

Prior to January 1, 2006 the Company, in accordance with the terms of its license for telecommunication services, rendered domestic long-distance and international long-distance services to its customers. Revenues and receivables from rendering of the services were recognized as the Company's revenues and receivables. In accordance with the new Russian telecommunications legislation, the Company will switch to the new system of interaction with Russian operators and subscribers ("end users") for the provision of domestic long-distance and international long-distance services with effect from January 1, 2006.

Under the previous system of interaction with operators OJSC "Rostelecom" provided long-distance traffic transit services to the Company. The Company independently billed for long-distance services provided to its local network subscribers through its own subscriber billing systems. The Company settled with Rostelecom for long-distance call transit and termination services and Rostelecom, in turn, paid the Company for call termination services. The Company performed settlements for international telecommunications services with subscribers by tariffs, set by OJSC "Rostelecom", and settlements for intercity telecommunications services by tariffs, set by the Federal Antimonopoly Agency.

Starting from 2006 the settlements between the Company and OJSC "Rostelecom" change. Domestic long-distance (DLD) and international long-distance (ILD) services will be rendered by OJSC "Rostelecom". Revenues and receivables from rendering of the services will be recognized as OJSC "Rostelecom" revenues and receivables.

The Company and OJSC "Rostelecom" signed an agreement for the year 2006 combining elements as of an agency agreement as well as of a service contract, according to which the Company undertakes rendering the following services to OJSC "Rostelecom":

- Subscriber orders' processing services for access to intercity and international telecommunications services provided through the direct and delay operations;
- Billing processing services for intercity and international telecommunications services;
- Preparation, formation and storage of necessary data and reports;
- Agency services on collection of payments from subscribers and on call center support in the name and on behalf of OJSC "Rostelecom";
- Claims administration, documents delivery.

In addition to the above mentioned contract the parties signed the agreement on network interconnections, under which the Company provides OJSC "Rostelecom" the services on traffic transmission and OJSC "Rostelecom" provides the Company connection services.

To comply with the new regulatory requirements, the Company must fulfill a number of conditions, including:

- technical conformity of its network to requirements set for domestic long-distance and international long-distance communication networks, including availability of interconnection points to its network in every federal administrative region of the Russian Federation;
- operational readiness to provide long-distance services to any local network subscriber.

34. Subsequent Events (continued)

Changes in settlements with OJSC “Rostelecom” in 2006 (continued)

Fulfillment of these requirements would not lead to additional capital expenditure of the Company as major necessary capital expenditure was made in 2005.

New provisions of the Federal Law on Communications

The legislative framework for the reform of the Russian telecommunications industry is the Federal Law on Communications of 2004. To implement the Federal Law on Communications, the Russian Government approved new rules and regulations for the interconnection and interaction of telecommunications networks, for the provision of local, intra-regional, DLD, and ILD telephone services, and other regulations for the provision of long-distance services, including licensing requirements for telecommunications operators. The transition to the new system of interaction on January 1, 2006 stems from these new requirements under Russian legislation.

New regulations required in pursuance of the Federal Law on Communications come into force starting January 1, 2006:

1. Decision of the government of the Russian federation #161 of March 28, 2005 on endorsing the Rules for connecting electric communication networks and for their interaction (with Amendments and Addenda of June 30, December 29, 2005);
2. Decision of the government of the Russian federation #310 of May 18, 2005 on the approval of Rules for Rendering Services of Local, Intra-Zone, Inter-City and International Telephone Communication (approved by Decision of the Government of the Russian Federation #310 of May 18, 2005) (with the Amendments and Additions of June 30, December 29, 2005);
3. Decision of the government of the Russian federation #242 of April 21, 2005 on the approval of the Rules for state regulation of tariffs on universal communications services (with the amendments and additions of October 24, 2005);
4. Order of the Ministry of Communications #97 of August 8, 2005 on Approval of the requirements to public switched telephone networks;
5. Order of the Ministry of Communications #98 of August 8, 2005 on Approval of the requirements to traffic transmission in public switched telephone networks.

Changes in settlements with interconnected operators

New legislative pronouncements effective January 1, 2006 significantly changed the scheme of settlements with interconnected operators.

Prior to January 1, 2006 settlements for interconnection services with the operators for local telephone services were of unilateral nature and for intra-regional, domestic long-distance and international long-distance telephone services interconnected operators received a part of the revenues from such services depending on the degree of their participation in the provision of a service.

34. Subsequent Events (continued)

Changes in settlements with interconnected operators (continued)

Starting from January 1, 2006 settlements are of a mutual nature and consist of the following:
- point of connection set up;
- user fee for point of connection;
- fee per minute of traffic submitted through the network.

The changes will result in additional revenues from interconnection and traffic transmission as well as in additional costs related to payments to these operators for connection points set up, user fee and traffic transmission in the operators’ network.

In order to meet the requirements of the new pattern of settlements the Company will incur additional capital expenditure. In 2006 such expenditure will amount to 144,200.

As of the beginning of April, 2006 the Company signed agreements of interconnection and traffic transmission with OJSC “Rostelecom” and OJSC “Multiregional Transit-Telecom”.

Currently the Company is undertaking the necessary renegotiation procedures with interconnection operators. The Company expects to finalize these procedures in June 2006.

Interconnection services are currently included into services regulated by the Government. As a consequence the interconnection fee is to be prescribed by the regulating body.

Value Added Tax

Federal Law # 119-FZ dated 22 July 2005, introduced amendments to the Tax Code effective January 1, 2006. According to these amended provisions VAT taxable base on sales of goods (rendering of services) is determined at the earliest of:
- date of goods (services) shipment (rendering);
- date of payment (partial payment) for subsequent delivery of goods (services), transfer of rights of ownership.

Purchase of share in OJSC “National television company “Zvezda”

In January 2006 the Company purchases 350 ordinary shares of National television company “Zvezda” for 47,410. The purchase was approved by the Board of Directors decision dated January 20, 2006. Total share of the Company in the investee amounted to 1.67%.

Purchase of share in OJSC “RINET”

In April 2006 the Company purchases 490 ordinary shares of RINET for 9,920. The purchase was approved by the Board of Directors decision dated December 27, 2005. Total share of the Company in the investee amounted to 100%.

(in thousands roubles)

34. Subsequent Events (continued)

Sale of shares in CJSC "Sibirskaya Sotovaya Svyaz"

In February 2006 the Company sold all of its 1,710 ordinary shares of "Sibirskaya Sotovaya Svyaz" for 91,117. The sale was approved by the Board of Directors decision dated December 27, 2005.

Bonds issue

In May 2006, the Company registered the issue of 2,000,000 interest-bearing bonds, series 07, par value of 1,000 Roubles each. The bonds have 6 semiannually coupons. The effective interest rate set at 8.65% per annum. The bonds mature in 3 years from the date of issue in May 2009. These bonds did not provide put options.

Loan agreements

CJSC ING bank (Evrasia)
In 2006 the Company entered into an agreement on line of credit with CJSC "ING bank (Evrasia)" totalling 5,000,000 USD. Tranche in amount of 4,350,000 USD was received within this line of credit. The interest under the agreement is accrued at floating rate LIBOR+3.15%.

CJSC Gazprombank
In 2006 the Company entered into an agreement on line of credit with CJSC "Gazprombank" totalling 420,000. The loan accrues interest at 10.5% per annum.

OJSC Sberbank
In March 2006 the Company entered into an agreement on line of credit with OJSC "Sberbank" totalling 300 000. Tranche in amount of 203,500 was received within this line of credit in March, 2006. The loan accrues interest at 8% per annum.

OJSC Promsvyazbank
On May 05, 2006 the Company's subsidiary CJSC "Baikalwestcom" entered into an agreement on line of credit with OJSC "Promsvyazbank" totalling 20,000 thousand USD.

Dividends

The Board of Directors of the Company proposed the following distribution of profits to the Annual Shareholders' meeting to be held on June 19, 2006:

Dividends for 2005 proposed for approval

Dividends on ordinary shares – 0,013773 Roubles per share	165,433
Dividends on preference shares – 0,017792 Roubles per share	69,539
Total	**234,972**

34. Subsequent Events (continued)

Employee Redundancy Program

In accordance with the Employee Redundancy Program approved by the Company's Management Board the Company dismissed 1,839 employees paying compensations totalling 44,804 between December 31, 2005 and the date of the authorisation of the financial statements for the issues.

Significant Operator

In accordance with Order of the Federal Service for Communications Supervision (Rossvyaznadzor) #39 on October 21, 2005, #40 and #31 on October 24, 2005 and #52 on December 22, 2005 the Company is included into the Register of Communications services operators occupying an important position in the general-use communications network (Significant Operator).

An operator occupying an important position in the general-use communications network is obliged to establish for the purposes of ensuring indiscriminate access to the market of communications services under similar circumstances, equal conditions for connecting telecommunications networks and for letting through traffic for communications operators rendering similar services, as well as to supply information and to render connection services and the services involved in letting through the traffic to these operators under the same terms and of the same standard, like for his own structural subdivisions and/or for the affiliated persons.

An operator occupying an important position in the general-use communications network on the territories of several subjects of the Russian Federation shall establish the terms for connecting telecommunications networks and for letting through traffic separately on the territory of each subject of the Russian Federation.

The refusal of an operator occupying an important position in the general-use communications network to conclude a contract for connecting telecommunications networks is seen as inadmissible, with the exception of cases when the connection of the telecommunications networks and their interaction contradict the terms of the licenses issued to communications operators, or the legal normative acts determining the construction and the functioning of the uniform telecommunications network of the Russian Federation.

Prices for connection services and for services involved in letting through traffic rendered by operators occupying an important place in the general-use communications network are subject to state regulation. The list of connection services and services for letting through the traffic, the prices for which are subject to state regulation, as well as the procedure for their regulation, are established by the Government of the Russian Federation.

Tariffs for Telecommunication Services

Under Decree of the Government of the Russian Federation #627 dated October 19, 2005 settlement rates (including rates for call origination, termination, and transit) for operators occupying a significant position in the public communications network (significant operators) are regulated by the Federal Service for Communications Supervision (Rossvyaznadzor) under the supervision of the Federal Tariff Service (FST) in accordance with the Federal Law on Natural Monopolies.

34. Subsequent Events (continued)

Tariffs for Telecommunication Services (continued)

In November 2005 the Company submitted its proposed tariffs to Rossvyaznadzor for approval. The tariffs were determined based on the 2005 rates. Owing to the absence of unified methodology on determination of economically justifiable costs the tariffs were not approved by the supervising body. Prior to setting such tariffs by the Federal Service for Communications Supervision the Company is allowed to determine these tariffs independently.

In December 2005 the Federal Service for Communications Supervision determined the amount of the compensation surcharge to be included in rates for call origination services provided by the Company as a significant operator. The surcharge is set at 0.54 Roubles per minute and is effective starting January 1, 2006. The compensation surcharge is supposed to cover the difference between an operator's income and economically justified costs in providing local and intra-regional communication services.

Rendering of Universal Telecommunication Service

Universal communication service is the communication service whose rendering to any user of communication service on the entire territory of the Russian Federation within a fixed term, of the established standard and at a reasonable price is obligatory for operators of the universal servicing. This service is to be rendered by operators of universal servicing who are selected in accordance with the results of a tender or are appointed in accordance with the Federal Law for every subject of the Russian Federation.

In the beginning of 2006 the Company won several tenders for provision of telecommunication services in Siberian Federal District.

Other tenders for provision of telecommunication services in Siberian Federal District are scheduled for 2006. The Company intends to participate in this competition for provision of universal service as well. The Company intends to additionally appropriate the funds necessary for provision of the service.

If there are no applications for taking part in the competition or if it is impossible to identify the winner rendering of universal communications service shall be imposed by the Government of the Russian Federation at the presentation of the federal executive power body in the sphere of communications upon the Company as an operator occupying an important position in the general-use communications network. The Company, as the operator occupying an important position in the general-use communications network, has no right to refuse the duty involved in rendering universal communications services imposed upon him.

34. Subsequent Events (continued)

Cancellation of Charges for Incoming Calls

In March 2006 an amendment to the Federal Law on Communication was approved by the President. According to this amendment effective July 1, 2006 the subscriber will not pay for a telephone connection established as a result of a call by another subscriber, except for the cases specifically mentioned in the Federal Law on Communication.

This change would mainly affect the settlements between the Company and mobile network operators.

Starting from the enforcement of this amendment the Federal Service on Tariffs will set tariffs for intra-regional services between the Company as a significant operator and mobile network operators. Subsequent to that the Company would renegotiate the agreements with these operators.

The Company envisages increase in revenues from intra-regional services in the second half of 2006 and increase in costs related to calls termination on mobile networks.

Impact of New Rules for Rendering of Telecommunication Services on Financial Statements 2006

The Company’s management expects that new rules of provision of telecommunication services will influence both revenues and expenses of the Company, however, the Company cannot reliably measure the effect of such changes on the financial position and financial results of the Company.