

**OAO “Sibirtelecom”**

**Unaudited Consolidated Financial Statements**

*For the 6-month period ended June 30, 2005*

# Unaudited Consolidated Financial Statements

*For the 6-month period ended June 30, 2005*

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**OAo “Sibirtelecom”**  
**Unaudited Consolidated Balance Sheet**  
**as of June 30, 2005**  
(in thousand rubles)

	Notes	June 30, 2005	December 31, 2004
<b>ASSETS</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	2	26,408,592	25,611,489
Intangible assets and goodwill		2,469,338	2,205,958
Investments in associates	4	37,756	35,735
Long-term investments	5	49,328	72,360
Long-term accounts receivable and other financial assets	6	185,149	178,721
Long-term advances given		968,492	319,862
<b>Total non-current assets</b>		<b>30,118,655</b>	<b>28,424,125</b>
<b>Current assets:</b>			
Inventories	7	685,828	608,412,
Accounts receivable	8	1,884,413	1,761,796
Current income tax assets		177,412	9,808
Short-term investments	5	1,080,881	161,901
Other current assets	9	1,905,976	1,980,145
Cash and cash equivalents	10	562,657	438,573
<b>Total current assets</b>		<b>6,297,167</b>	<b>4,960,635</b>
<b>TOTAL ASSETS</b>		<b>36,415,822</b>	<b>33,384,760</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Preference shares	11	869,371	869,371
Ordinary shares	11	2,671,760	2,671,760
Change in the fair value of financial assets available for sale		19,536	12,712
Incremental capital, retained earnings and other reserves		12,919,886	12,187,096
<b>Total, shareholders' equity concerned with shareholders of the parent company of the group</b>		<b>16,480,553</b>	<b>15,740,939</b>
<b>Minority interest</b>		28,293	10,635
<b>Total shareholders' equity</b>		<b>16,508,846</b>	<b>15,751,574</b>
<b>Non-current liabilities:</b>			
Long-term borrowings	13	7,714,582	5,428,512
Finance lease obligations		724,303	877,756
Income tax long-term accounts payable		2,152	9,637
Long term taxes payable		46,262	46,360
Liabilities for pension benefits		990,241	835,000
Deferred revenue		233,367	249,838
Deferred income tax liability		1,758,551	1,710,706
<b>Total non-current liabilities</b>		<b>11,469,458</b>	<b>9,157,809</b>
<b>Current liabilities</b>			
Accounts payable, accrued expenses	14	2,388,246	2,599,005
Payables to Rostelecom		159,226	158,780
Current income tax accounts payable		35,503	179,099
Taxes and Social Obligations	15	873,358	908,606
Dividends payable		425,123	69,214
Short-term borrowings	13	1,222,863	1,220,410
Current portion of long-term borrowings	13	3,004,672	2,973,177
Current portion of finance lease obligations		328,527	367,086
<b>Total current liabilities</b>		<b>8,437,518</b>	<b>8,475,377</b>
<b>Total liabilities</b>		<b>19,906,976</b>	<b>16,798,186</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>36,415,822</b>	<b>33,384,760</b>

General Director \_\_\_\_\_ Nikulin A.I.

Chief Accountant \_\_\_\_\_ Hvoschinskaya G.I.

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

**OA O “Sibirtelecom”**  
**Unaudited Consolidated Statement of Operations**  
**for the 6-month period ended June 30, 2005**

(in thousand rubles)

	Notes	for the 6-month period ended June 30, 2005	for the 6-month period ended June 30, 2004
<b>Revenues</b>	<b>16</b>	12,728,641	10,402,981
Wages, Salaries, Other Benefits and Payroll Taxes		(4,113,258)	(3,617,868)
Depreciation and Amortization		(1,646,749)	(983,985)
Materials, Repairs, Maintenance and Utilities		(1,257,738)	(925,002)
Taxes Other than Income Tax		(243,457)	(178,078)
Interconnection Charges – Russian Companies		(1,794,615)	(1,606,730)
Bad Debts (Expense) /Reversal		(63,995)	(149,938)
Loss on Disposal of Property, Plant and Equipment		(98,288)	(86,647)
Other Operating Expenses	<b>17</b>	(1,435,352)	(975,946)
<b>Operating income</b>		<b>2,075,189</b>	<b>1,878,787</b>
Income from Associates		2,021	2,663
Interest Expenses, net	<b>18</b>	(684,275)	(487,648)
Gain (Loss) from Sale of Investments		10,417	45,849
Foreign Exchange loss, net		(35,260)	44,407
<b>Profit before Income Tax</b>		<b>1,368,092</b>	<b>1,484,058</b>
<b>Income tax</b>		<b>(428,662)</b>	<b>(556,681)</b>
(Expenses) compensation for the income tax – current tax		(394,251)	(456,365)
(Expenses) compensation for the income tax – deferred tax		(34,411)	(100,316)
<b>Profit (Loss) For Reporting Period</b>		<b>939,430</b>	<b>927,424</b>
Profit (loss) concerned with the shareholders of the parent company of the group		938,720	927,377
Profit (loss) concerned with minority shareholders		710	47
<b>Profit (Loss) For Reporting Period</b>		<b>939,430</b>	<b>927,424</b>

General Director \_\_\_\_\_ Nikulin A.I.

Chief Accountant \_\_\_\_\_ Hvoschinskaya G.I.

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

**OA O “Sibirtelecom”**  
**Notes to the Unaudited Consolidated Financial Statements**  
**for the 6-month period ended June 30, 2005**

**1. General Information**

**Authorization of Accounts**

The unaudited consolidated financial statements of OA O “Sibirtelecom” (hereinafter “the Company”) and its subsidiaries (hereinafter jointly “the Group”) are prepared for the 6-month period ended June 30, 2005.

**Principles of the Preparation of Unaudited Consolidated Financial Statements**

Financial statements of the Company according to International Financial Reporting Standards for the 6 months of 2005 are represented by an accounting balance-sheet, profit and loss statement and comments to the financial statements. These reports do not have all disclosures required by IFRS, but their volume is sufficient to get some insight about the financial situation and the results of Company’s activity over the 6 months of 2005.

The reports are unaudited consolidated financial statements of the Company. No audit, overview or any other procedures will be done with respect to them. At the same time, taking into account Company’s experience in the area of providing financial statements according to IFRS, the Company considers that those who use financial reporting can consider them reliable.

The Company and its affiliated and associated companies keep records in Russian rubles and make financial statements in accordance with the Federal law of the Russian Federation “On Accounting”. The unaudited consolidated financial statements were prepared by the Company on the basis of unaudited consolidated financial statements of the Company and of its affiliated and associated companies made in the form corresponding to International Financial Reporting Standards with consideration of assumptions described below.

When preparing these unaudited consolidated financial statements, the Company performed a smaller volume of the procedures as compared to the volume when preparing annual consolidated financial statements. In connection with that, the Company accepted assumptions including the ones in respect of the fair value of the assets and liabilities of acquired subsidiaries and the value of liabilities connected with the commitment to pension insurance in 2005.

The top managers consider that the book value of all Company’s fixed assets can be compared with their fair value. Nevertheless, they are going to invite an independent appraiser to confirm this fair value.

The Company applied IFRS 19 ‘Remuneration to Employees’ and performed actuarial evaluation of pension liabilities with fixed payments as of December 31, 2004. The pension liabilities with fixed payments are shown in these financial statements.

Indices of the Consolidated Balance Sheet as of December 31, 2004 and of the Income and Loss Statement for the 6 months of 2004 have been changed in connection with:

- the indicated results of performed actuarial evaluation of pension liabilities with fixed payments;
- utilization of a new form of financial statements and corresponding reclassification of some indices of accounting and footnote forms.

Actual indices of financial statements for the year that finished on December 31, 2005 can differ from indices of the present financial statement due to new information and updated information about the admissions accepted by the Company.

The notes to unaudited consolidated financial statements don’t disclose all information that should be disclosed to comply with International Financial Reporting Standards. The noted to annual consolidated

financial statements of the Company can disclose more information than in the present unaudited consolidated financial statements of the Company.

## 2. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Vehicles and other	Total
<b>Cost</b>					
At December 31, 2004	10,719,435	14,305,868	1,502,128	2,751,806	29,279,237
Additions	81	0	2,354,030	11	2,354,122
Additions due to acquisition of subsidiaries	110,327	237,807	34,848	10,607	393,589
Disposals	(100,375)	(167,595)	(9,900)	(31,670)	(309,540)
Disposals due to sale of subsidiaries	0	0	0	0	0
Transfers	396,194	850,418	(1,519,468)	272,856	0
Reclassification	48,846	132,678	0	(188,900)	(7,376)
<b>At June 30, 2005</b>	<b>11,174,508</b>	<b>15,359,176</b>	<b>2,361,638</b>	<b>2,814,710</b>	<b>31,710,032</b>
<b>Accumulated depreciation</b>					
At December 31, 2004	(2,481,743)	(855,446)	0	(330,559)	(3,667,748)
Charge for the year	(318,167)	(874,655)	0	(366,503)	(1,559,325)
Depreciation charge of subsidiaries acquired	(61,065)	(146,636)	0	(6,783)	(214,484)
Disposals due to sale of subsidiaries	0	0	0	0	0
Disposals	70,213	53,317	0	17,452	140,982
Reclassification	(7,736)	(11,502)	0	18,373	(865)
<b>At June 30, 2005</b>	<b>(2,798,498)</b>	<b>(1,834,922)</b>	<b>0</b>	<b>(668,020)</b>	<b>(5,301,440)</b>
<b>Net book value as of</b>					
<b>December 31, 2004</b>	<b>8,237,692</b>	<b>13,450,422</b>	<b>1,502,128</b>	<b>2,421,247</b>	<b>25,611,489</b>
<b>Net book value as of</b>					
<b>June 30, 2005</b>	<b>8,376,010</b>	<b>13,524,254</b>	<b>2,361,638</b>	<b>2,146,690</b>	<b>26,408,592</b>

## 3. Consolidated Subsidiaries

The consolidated financial statements include the assets, liabilities and financial results of subsidiaries listed below:

Subsidiary	Main Activity	Ownership, %		Voting Shares, %	
		June 30, 2005	December 31, 2004	June 30, 2005	December 31, 2004
ZAO Eniseytelecom	Cellular of GSM 900, NMT 450, INT-MC 450 standard	100	100	100	100
ZAO Baykalwestcom	Cellular of GSM 900, NMT 450, INT-MC 450 standard	100	100	100	100

Subsidiary	Main Activity	Ownership, %		Voting Shares, %	
		June 30, 2005	December 31, 2004	June 30, 2005	December 31, 2004
		ZAO Sayantelecom	Cellular of GSM 900 standard	100	100
ZAO Chita Net	Internet	100	100	100	100
ZAO Altaiskaya Telecommunication Company	Rendering local telephone services	100	100	100	100
ZAO Kuzbass Cellular Telephone GSM	Cellular of GSM standard	100	100	100	100
OOO Private Security Agency Ekrantelecom	Security activities		82.55		82.55
OAO NGTS-PAGE	Paging	72.7	72.7	72.7	72.7
ZAO Region – net	CDMA telecommunication services	66	66	66	66
ZAO Altaiskaya Investment Company	Re-selling activity	62.5	62.5	62.5	62.5
OAO Mobiltelecom	Internet, paging	64.99	61.16	64.99	61.16
OAO AltaiSVIAZ	Cellular of GSM standard	60		60	
OAO Regional Information Nets	Internet	51	51	51	51

On March 9, 2005 the Company acquired additional 3.83% of ordinary voting shares of OAO Mobiltelecom (total share is 64.99% as of June 30, 2005).

The difference between the cost of the additional interest in the subsidiary and the minority interest's share of the assets and liabilities is reflected as an equity transaction.

On February 9, 2005 the Company acquired 60% of ordinary voting shares of OAO AltaiSVIAZ.

#### 4. Investments in Associates

Investments in associates at June 30, 2005 and December 31, 2004 include:

Associate	Main activity	June 30, 2005		December 31, 2004	
		Voting shares	Carrying value	Voting shares	Carrying value
ZAO ATS-32	Rendering local telephone services	40%	13,681	40%	13,338
ZAO ATS-41	Rendering local telephone services	49%	10,094	49%	9,456
ZAO Novokom	Interconnection line rental	50%	8,840	50%	7,389
OOO GiprosViyaz-Sibir	Project engineering	24%	2,744	24%	2,781
ZAO TeleRoss-Novosibirsk	Communication satellite services	50%	2,398	50%	2,772



Associate	Main activity	June 30, 2005		December 31, 2004	
		Voting shares	Carrying value	Voting shares	Carrying value
OA O Irkutskaya Rasschetnaya palata	Internet	34%	2,741	34%	2,741
Other			133		133
Impairment provision			(2,875)		(2,875)
<b>Total</b>			<b>37,756</b>		<b>35,735</b>

All the above companies are Russian legal entities and have the same financial year as the Company.

Movement in investments in associates for the 6-month periods ended June 30, 2005 and December 31, 2004 is presented below:

	June 30, 2005	December 31, 2004
<b>Investments in associates at the beginning of the period</b>	<b>35,735</b>	<b>35,035</b>
Acquisition of associates	0	18,091
Share of income net of income tax and dividends received	2,021	6,766
Effect of consolidation as a result of acquisition of control	0	(23,153)
Sale of investments in associates	0	(1,004)
Impairment of investments recognized during the year	0	0
<b>Investments in associates at the end of the period</b>	<b>37,756</b>	<b>35,735</b>

## 5. Long-term and short-term investments

As of June 30, 2005 and December 31, 2004 investment available-for-sale comprised the following:

Company	June 30, 2005		December 31, 2004	
	Ownership interest	Carrying value	Ownership interest	Carrying value
<b>Long-term investments</b>				
OA O CB Accept	4.31%	21,110	4.31%	21,110
OA O Sibacadembank	0.84%	13,979	0.84%	13,979
ZAO Siberian Cellular Net	10%	17,851	10%	17,851
OA O SB RF	0.01%	24,078	0.01%	17,253
ZAO RusleasingSvyaz	7.30%	11,613	7.30%	11,613
OA O CB Svyazbank	0.01%	10,239	0.01%	10,239
AKB AltayBusinessBank	5.70%	3,830	5.70%	3,830
Other		14,301		14,274
Impairment provision		(67,673)		(67,789)
<b>Total investments available-for-sale</b>		<b>49,328</b>		<b>42,360</b>

As of June 30, 2005 and December 31, 2004, the Company's investments comprised the following:

	June 30, 2005	December 31, 2004
Long-term investments held-to-maturity	0	30,000
Long-term investments available-for-sale	49,328	42,360
<b>Total long-term investments</b>	<b>49,328</b>	<b>72,360</b>
Short-term investments held-to-maturity	1,080,881	161,901
<b>Total short-term investments</b>	<b>1,080,881</b>	<b>161,901</b>
<b>Total investments</b>	<b>1,130,209</b>	<b>234,261</b>

As of June 30, 2005 short-term investments held-to-maturity included bank deposits with the maturity from 3 months to 1 year in amount of 1,064,627 (2004 - 146,419).

## 6. Long-Term Accounts Receivable and Loans Given

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

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Long-term accounts receivable	103,231	96,910
Long-term loans given	81,918	81,811
<b>Total</b>	<b>185,149</b>	<b>178,721</b>

## 7. Inventories

Inventories at June 30, 2005 and December 31, 2004 included the following:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Cable, materials and spare parts for telecommunications equipment	281,009	233,022
Finished goods and goods for resale	31,695	62,348
Other inventories	373,124	313,042
<b>Total</b>	<b>685,828</b>	<b>608,412</b>

## 8. Accounts receivable

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

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Trade receivables – telecommunication services	2,748,648	2,621,163
Trade receivables – other	147,073	139,898
Provision for impairment of receivables	(1,011,308)	(999,265)
<b>Total</b>	<b>1,884,413</b>	<b>1,761,796</b>

The Company identified accounts receivable by the following major customer groups:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Corporate customers	736,542	684,702
Residential customers	1,058,628	988,459
Governmental customers	953,478	948,002
<b>Total</b>	<b>2,748,648</b>	<b>2,621,163</b>

## 9. Other Current Assets

As of June 30, 2005 and December 31, 2004 other current assets comprised the following:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Prepayments and advance payments	269,597	381,210
Settlements with personnel	49,475	42,657
VAT receivable	1,046,328	1,272,874
Other prepaid taxes	11,422	27,970
Deferred expenses	189,093	165,160
Other receivables and current assets	360,129	106,778
Provision for other current assets	(20,068)	(16,504)
<b>Total</b>	<b>1,905,976</b>	<b>1,980,145</b>

## 10. Cash and Cash Equivalents

As of June 30, 2005 and December 31, 2004 cash and cash equivalents comprised the following:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Cash at bank and on hand	553,250	344,647
Short-term deposits with original maturities of three months or less	9,407	90,254
Other cash equivalents	0	3,672
<b>Total</b>	<b>562,657</b>	<b>438,573</b>

## 11. Authorized Capital

All ordinary and preference shares have a par value of 0.15 Rubles as of June 30, 2005 and December 31, 2004.

Type of share	Number of outstanding shares (thousands)	Par value per one share (rubles)	Total par value	Carrying value
Ordinary	12,011,402	0.15	1,801,710	869,371
Preference	3,908,420	0.15	586,263	2,671,760
<b>Total</b>	<b>15,919,822</b>		<b>2,387,973</b>	<b>3,541,131</b>

## 12. Earnings (Loss) per Share

Earnings per share is calculated by dividing the profit attributable to participating shareholders by the weighted average number of ordinary shares in issue during the period.

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Weighted average number of ordinary shares outstanding (thousands)	12,011,402	12,011,402
<b>Profit</b>	<b>939,430</b>	<b>927,424</b>
<b>Earning per share (rubles per share)</b>	<b>0.0782</b>	<b>0.0772</b>

There are no dilutive instruments therefore basic earnings per share equal to diluted earnings per share.

### 13. Borrowings

As of June 30, 2005 and December 31, 2004 short term borrowings comprised the following:

	<u>June 30, 2005</u>	<u>December 31, 2004</u>
<i>Short-term borrowings</i>		
<b>Bank loans</b>		
Bank loans (Rubles)	307,315	719,087
Bank loans (US Dollars)	141,997	35,305
Bank loans (Euro)	731	5,054
<b>Total bank loans</b>	<b>450,043</b>	<b>759,446</b>
<b>Vendor financing</b>		
Vendor financing (Rubles)	2,350	2,208
Vendor financing (US Dollars)	0	0
Vendor financing (Euro)	0	0
<b>Total vendor financing</b>	<b>2,350</b>	<b>2,208</b>
<b>Promissory notes</b>		
Promissory notes (Rubles)	770,470	458,756
Promissory notes (US Dollars)		
<b>Total promissory notes</b>	<b>770,470</b>	<b>458,756</b>
<b>Total short-term borrowings</b>	<b>1,222,863</b>	<b>1,220,410</b>

As of June 30, 2005 and December 31, 2004 long term borrowings comprised the following:

	<u>June 30, 2005</u>	<u>December 31, 2004</u>
<i>Long-term borrowings</i>		
<b>Bank loans</b>		
Bank loans (Rubles)	2,385,845	2,707,649
Bank loans (US Dollars)	461,880	534,486
Bank loans (Euro)	289,054	320,274
<b>Total bank loans</b>	<b>3,136,779</b>	<b>3,562,409</b>
<b>Bonds (Rubles)</b>	<b>7,001,614</b>	<b>4,053,952</b>
<b>Vendor financing</b>		
Vendor financing (Rubles)	1,841	34,222
Vendor financing (US Dollars)	571,361	743,471
Vendor financing (Euro)		0
<b>Vendor financing</b>	<b>573,202</b>	<b>777,693</b>
<b>Promissory notes</b>		
Promissory notes (Rubles)	7,659	7,635
Promissory notes (US Dollars)		
<b>Total promissory notes</b>	<b>7,659</b>	<b>7,635</b>
<b>Less: Current portion of long-term borrowings</b>	<b>(3,004,672)</b>	<b>(2,973,177)</b>
<b>Total long-term borrowings</b>	<b>7,714,582</b>	<b>5,428,512</b>

As of June 30, 2005 and December 31, 2004 the carrying amounts of the Company's borrowings are denominated in the following currencies:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Russian Rubles	10,687,094	7,983,509
US dollars	1,175,238	1,313,262
Euro	79,785	325,328
<b>Total</b>	<b>11,942,117</b>	<b>9,622,099</b>

#### **14. Accounts Payable, Accrued Expenses and Advances received**

As of June 30, 2005 and December 31 2004, the Company's accounts payable and other current liabilities comprised the following:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Trade accounts payable	362,423	366,435
Accounts payable for capital investments	772,314	867,988
Salaries and wages	533,773	714,573
Advances received from subscribers	549,910	533,392
Other accounts payable	169,826	116,617
<b>Total</b>	<b>2,388,246</b>	<b>2,599,005</b>

#### **15. Taxes Payable**

As of June 30, 2005 and December 31 2004, the Company had the following current taxes payable:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Value added tax	600,265	681,669
Property tax	97,582	80,230
Individual income tax	51,065	32,662
Sales tax		98
Unified social tax	99,567	91,779
Road tax		69
Other taxes	24,879	21,770
Current portion of taxes restructured on long-term	0	329
<b>Total</b>	<b>873,358</b>	<b>908,606</b>

## 16. Revenues

By revenue types	<u>6 months 2005</u>	<u>6 months 2004</u>
Long distance telephone services – domestic	3,263,276	3,273,254
Long distance telephone services – international	461,667	484,987
Local telephone calls	3,370,315	2,500,702
Installation and connection fees	573,557	555,222
Documentary services	26,487	37,114
Cellular services	2,805,249	1,754,349
Radio and TV broadcasting	181,188	171,587
Data transfer and telematic services	178,647	164,314
New services	535,739	410,098
Rent of telephone channels	148,096	78,375
Revenues from national operators	496,286	304,836
Other telecommunications services	428,575	407,214
Other revenues	259,559	260,929
<b>Total</b>	<b><u>12,728,641</u></b>	<b><u>10,402,981</u></b>

## 17. Other Operating Expenses

By revenue types	<u>6 months 2005</u>	<u>6 months 2004</u>
Telecommunication regulatory fees	0	31,502
Security and fire protection services	110,300	90,141
Business travel expenses	78,138	65,166
Transportation cost	27,480	26,109
Post services	25,880	13,166
Education expenses	31,360	19,533
Cost of goods sold	94,872	74,441
Rent of premises	109,782	101,154
Professional services	60,459	37,659
Advertising expenses	120,148	65,202
Property insurance	75,846	83,184
Payments to Non-commercial partnership	42,533	1,058
Membership fees, charitable contributions, trade unions dues	59,839	34,887
Tax penalties	2,115	2,779
Other expenses	598,715	329,965
<b>Total</b>	<b><u>1,435,352</u></b>	<b><u>975,946</u></b>

## 18. Interest Expense, net

	<u>6 месяцев 2005</u>	<u>6 месяцев 2004</u>
Interest income	30,331	17,992
Interest expense	(554,520)	(278,223)
Interest expense accrued on financial leases	(157,403)	(227,330)
Interest expense accrued on goods credits	(2,683)	(87)
<b>Total</b>	<b><u>(684,275)</u></b>	<b><u>(487,648)</u></b>