

OJSC North-West Telecom

Unaudited
Consolidated Financial Statements

For the 6 months that expired on 30th June 2005

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OJSC North-West Telecom
Unaudited Consolidated Balance Sheet as of 30th June 2005
(in thousands roubles)

	No.	30 th June 2005	31 st December 2004 (audited)
ASSETS			
Non-current assets			
Fixed Assets	2	22 700 786	22 037 788
Intangible assets and goodwill	3	2 268 733	2 225 919
Financial investments in associated companies	5	86 817	85 046
Long-term financial investments	6	656 931	656 990
Long-term accounts receivable and other financial assets		25 407	37 139
Long-term issued advances		744 149	313 351
Total non-current assets		<u>26 482 823</u>	<u>25 356 233</u>
Current assets			
Inventory holdings	7	349 878	322 901
Accounts receivable	8	1 446 530	1 173 279
Current income tax asset		168 682	147 588
Short-term financial investments	6	10 020	7 366
Other current assets	9	1 169 271	1 303 520
Cash and cash equivalents	10	1 233 318	253 389
Total current assets		<u>4 377 699</u>	<u>3 208 043</u>
TOTAL ASSETS		<u>30 860 522</u>	<u>28 564 276</u>
EQUITY AND LIABILITIES			
Preferred stock	11	621 739	621 739
Common stock	11	2 233 765	2 233 765
Treasury stock		(54 634)	(60 822)
Additional capital, retained earnings and other reserves		<u>14 221 785</u>	<u>13 532 720</u>
Total equity related to shareholders of the group's parent company		17 022 655	16 327 402
Minority interest		27 547	27 448
Total equity			
Long-term liabilities			
Long-term credits and loans	13	4 691 068	3 180 399
Finance lease long-term liabilities		393 628	485 426
Pension provision liabilities		1 205 031	1 141 963
Deferred income		176 996	216 557
Deferred income tax liability		<u>1 263 427</u>	<u>1 171 626</u>
Total long-term liabilities		7 730 150	6 195 971
Current liabilities			
Accounts payable and accrued liabilities	14	1 355 607	2 059 483
Accounts payable to OJSC Rostelecom		161 109	159 245
Current income tax accounts payable		5 405	155 121
Taxes payable and social security payable	15	772 233	809 692
Dividends payable		355 614	18 278
Short-term credits and loans		646 442	140 595
Share of long-term credits and loans to be repaid within the year	13	2 588 320	2 465 835
Current portion of obligations under finance leases		195 440	205 206

Total current liabilities	6 080 170	6 013 455
Total liabilities	13 810 320	
TOTAL EQUITY AND LIABILITIES	<u>30 860 522</u>	<u>28 564 276</u>

V.A. Akulich, _____ Chief executive officer Chief accountant _____ M.M. Semchenko

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

OJSC North-West Telecom
Unaudited Consolidated Profit and Loss Report
for 6 months of 2005
(in thousands of roubles)

	No.	6 months of 2005	2004 (audited)
Income	16	9 912 906	15 407 400
Wages, other pays and social deductions		(3 137 578)	(5 412 328)
Wear and depreciation		(1 071 890)	(2 079 404)
Materials, repairs and maintenance, utilities		(941 276)	(1 431 405)
Taxes other than income tax		(216 401)	(346 152)
Communication operators charges – international companies		(233)	(1 279)
Communication operators charges – Russian companies		(1 742 583)	(2 909 848)
(Expenditure) restoration of doubtful debts reserve		47 272	(361 557)
Profit (loss) from withdrawal of fixed assets		(74 387)	23 130
Other operating expenses	17	(956 254)	(1 369 764)
Operating profit		1 819 576	1 518 793
Profit from interest in associated companies		1 764	3 710
Interest expenses, net	18	(364 394)	(325 797)
Profit from financial investments		2 328	31 643
Foreign exchange gain, net		15 585	21 313
Profit before taxes		1 474 859	1 249 662
Profit tax		(449 170)	(540 520)
Profit for the period under report		1 025 689	709 142
Profit related to shareholders of the group's parent company		1 024 712	705 318
Profit related to minority shareholders of subsidiaries		977	3 824
Profit for the period under report		1 025 689	709 142

V.A. Akulich, _____ Chief executive officer Chief accountant _____ M.M. Semchenko

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

OJSC North-West Telecom
Notes to the Unaudited Consolidated Financial Statements
for 6 months of 2005

1. General

The unaudited Consolidated Financial Statements of OJSC North-West Telecom ("Company") and its subsidiaries (jointly referred to as the "Group") have been prepared for 6 months of 2005.

Principles of preparing the unaudited Consolidated Financial Statements

The financial statements of OJSC North-West Telecom for 6 months of 2005 according to IFRS are presented as the balance sheet, profit and loss report and notes to the financial statements. These statements do not contain all disclosures required according to IFRS, however, their volume are sufficient to obtain an idea of the financial standing and the results of the Company's activities for 6 months of 2005.

Statements for 6 months according to IFRS are presented by OJSC North-West Telecom for the first time; such reports have never been presented by OJSC North-West Telecom before. These reports are unaudited consolidated financial statements of OJSC North-West Telecom. No procedures of audit, review or other similar procedures will be performed in respect of these statements. At the same time, taking into account the experience of OJSC North-West Telecom in the field of presenting reports according to IFRS, the Company considers that users of the financial statements can rely on these statements.

OJSC North-West Telecom and its subsidiaries and dependent companies keep records in Russian roubles and make up financial statements in compliance with the Federal Law of the Russian Federation "On Accounting". These unaudited consolidated financial statements of OJSC North-West Telecom have been prepared on the basis of the unaudited financial statements of OJSC North-West Telecom and its subsidiaries and dependent companies made up in the format complying with the International Financial Reporting Standards taking into account the assumptions listed below.

Restrictions and assumptions in the financial statements of OJSC North-West Telecom for 6 months of 2005

In preparing these unaudited consolidated financial statements, OJSC North-West Telecom used less procedures than could have been used in preparing annual consolidated financial statements. In this context, OJSC North-West Telecom has used some assumptions, including those concerning the fair value of assets and liabilities of acquired subsidiaries and dependent companies, the value of pension provision liabilities, deferred income, fixed assets depreciation reserves, inventory holdings and accounts receivable. The actual figures of the financial reporting for the year that expired on 31st December 2005 may differ from the figures of these financial statements, as there might have been some adjustments of the information on assumptions used by the Company and some other new information might have appeared.

These unaudited consolidated financial statements do not contain any information on comparable figures of the financial statements for 6 months of 2004. For comparison purposes, the Group presents audited financial figures for the year that expired on 31st December 2004 and as of 31st December 2004.

The content of the notes to the unaudited consolidated financial statements of OJSC North-West Telecom do not disclose fully all the information, the disclosure of which is required for compliance with the International Financial Reporting Standards. The content of the notes to the annual consolidated financial statements of OJSC North-West Telecom may disclose information in a volume larger than disclosed in these unaudited consolidated financial statements of OJSC North-West Telecom.

Regroupings for the previous periods

Some amounts in the audited consolidated balance sheet as of 31st December 2004 were regrouped for comparison with the presentation of the figures for the current intermediate period.

2. Fixed Assets

Fixed assets are taken into account at the cost of acquisition or construction less the accumulated wear and impairment.

Depreciation of fixed assets shall be calculated by the straight-line method. Periods of depreciation approximately equal to the estimated useful lives of each group of assets are presented below:

Buildings and facilities	20-50 years
Analogue switches	10-20 years
Digital switches	10-15 years
Other telecommunications equipment	10-20 years
Vehicles	5 years
Computers, office and other equipment	3-5 years
Land plots	Are not depreciated

For the purposes of information disclosure, fixed assets are grouped as follows:

- Land plots, buildings and facilities
- Switches and transmitting devices
- Construction in progress and equipment to be installed
- Other fixed assets, including computers, vehicles and other equipment.

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. Taking into account the existing Russian legislation in the field of licensing and the previous 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.

Construction in progress is recorded as the total of actual expenses incurred by the Company from the beginning of construction to the reporting date. Accrual of depreciation begins when fixed assets are put into operation.

Interest on loans received for the funding of the construction of fixed assets is capitalized as part of the cost of the related asset during the period required to complete the construction and prepare the asset for its intended use. Other loan expenses are recorded in the profit and loss report.

The costs of maintenance and repairs are included in the expenses as they are done. Costs of renovations and betterments are capitalized, while replaced assets are written off. Any gains or losses resulting from assets writing off are included in the financial results, as they are written off.

IAS 36 "Impairment of Assets" requires that the recoverable amount of an asset, including property, plant and equipment, should be estimated whenever there is an indication that the assets may be impaired.

The book value of fixed assets is analyzed for impairment in case of any events or change of circumstances, as a result of which the book value of fixed assets may be not recoverable. If there is such an indicator and the book value exceeds the estimated recoverable figure, the value of assets of units generating the receipt of cash flows, then the book value is lessened to their recoverable value. The recoverable amount of the assets is equal to the higher of the net selling price and the value in further use. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment expenses are recorded in the profit and loss report.

	Land plots, buildings and facilities	Switches and transmitting devices	Construction in progress and equipment to be installed	Vehicles and other fixed assets	Total
Depreciated cost as of 31st December 2004	10 057 802	10 018 358	220 879	1 740 749	22 037 788
Depreciated cost as of 30th June 2005	9 789 532	9 669 629	1 514 918	1 726 707	22 700 786

The Company has used the exception allowed by IFRS 1, which permits organizations to assess fixed assets as of the date of switching over to IFRS at fair value and to use such fair value as the actual value of fixed assets. Management believes that the book value of all fixed assets of the Company is approximately comparable to their fair value.

In 2004 the Company engaged an independent appraiser to confirm the fair value of fixed assets. As of the date of the issue of the enclosed financial statements, the respective work was not completed. Since then, a considerable progress has been made in the assessment work, and the Company expects that it will be completed soon and thus the expectations of management will be either confirmed or adjusted.

As of 30th June 2005 the depreciated value of fixed assets transferred to the Company under finance leases was 1 001 599 thousand roubles (2004 – 1 075 643 thousand roubles). The Company uses the fixed assets received under contracts of finance lease as a security for respective lease liabilities.

3. Intangible Assets

Intangible assets are capitalized at the acquisition cost.

Received licenses and software are amortized in equal parts over their estimated useful lives determined equal to the term of the license or the license agreement for software. Other intangible assets are amortized in the same way.

Should any signs of a reduction in the value of intangible assets be found, the book value of each asset is assessed and, if a reduction in the value is found, the book value is immediately reduced to the recoverable amount.

	Goodwill	Licenses	Software	Other	Total
Depreciated cost as of 31st December 2004	862 402	4 251	1 356 178	3 088	2 225 919
Depreciated cost as of 30th June 2005	916 171	6 952	1 342 346	3 264	2 268 733

Goodwill arising on the acquisition of OJSC Lensvyaz and OJSC Svyaz of the Republic of Komi is not amortized. However, it is analyzed for impairment on the annual basis.

4. Subsidiaries

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

Name	Principal activity	Interest/percentage of voting shares	
		30th June 2005	31st December 2004
AMT LLC	Consulting services	100%	100%
Artelecom Service LLC	Company's assets leasing	77%	77%
Novgorod Datacom LLC	Communication services	100 %	-
Kolatelecom CJSC	Communication services	50%	50%
Parma-Inform LLC	Communication services	50%	50%

IK Svyaz CJSC	Consulting services	100%	100%
Novgorod Datacom LLC	Communication services	100 %	52%

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

In March 2005, in compliance with the decision of the Board of Directors dated 21st January 2005, the Company acquired the 100% share in Novgorod Datacom LLC and the remaining 48% % share in Novgorod Deitacom LLC (see Note 8) for 63 429 thousand roubles and 4 527 thousand roubles respectively.

5. Financial investments in associated companies

The Company's investments in associates as of 30th June 2005 and 2004 comprised the following:

Name of company	Area of activities	30 th June 2005		31 st December 2004	
		Percentage of voting shares	Carrying value	Percentage of voting shares	Carrying value
WestBalt Telecom CJSC	Communication services	28%	43 650	28%	42 011
Insurance CJSC Medexpress	Insurance services	35%	26 855	35%	26 854
Northern Clearing Chamber CJSC	Payment clearing systems	20%	16 306	20%	16 181
CJSC Parma Telecom	Construction and maintenance of trunk-call offices	34%	34	34%	34
Other			23		23
Impairment of financial investments in associated companies			(51)		(57)
Total			86 817		85 046

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

6. Long-term and short-term investments

The Company's investments as of 30th June 2005 and 2004 comprised the following:

	30 th June 2005	31 st December 2004
Long-term investments held-to-maturity	8 000	8 000
Long-term investments available-for-sale	648 931	648 990
Total long-term finance investments	656 931	656 990
Short-term investments held-to-maturity	10 020	7 366
Total investments	666 951	664 356

As of 30th June 2005 and 2004 investments held-to-maturity included a long-term deposit of 8,000.

The Company's investments available-for-sale as of 30th June 2005 and 2004 comprised the following:

Name of company	30 th June 2005		31 st December 2004	
	Ownership interest	Fair value	Ownership interest	Fair value
OJSC Telecominvest	15 %	615 336	15 %	615 336
Other long-term finance investment		72 396		87 298
Impairment in value of other finance investments		(38 801)		(53 644)
Total investments available-for-sale		648 931		648 990

Other long-term investments comprise minor investments of the Company in the equity of a number of commercial entities incorporated in the Russian Federation.

7. Inventory holdings

The Company's inventory holdings as of 30th June 2005 and 2004 comprised the following:

	30 th June 2005	31 st December 2004
Cable, materials and spare parts for telecommunications equipment	146 937	134 758
Finished products and goods for sale	10 805	12 272
Tools, working clothes and other inventories	192 136	176 161
Reserve against impairment of inventories		(290)
Total	349 878	322 901

As of 30th June 2005 no inventory holdings had been used as a security against credits or loans.

8. Accounts receivable

The Company's accounts receivable as of 30th June 2005 and 2004 comprised the following:

	30 th June 2005	31 st December 2004
Trade receivables – telecommunication services	2 390 668	2 110 063
Trade receivables – other	134 433	93 099
Allowance for doubtful accounts	(1 078 571)	(1 029 883)
Total	1 446 530	1 173 279

The Company identified trade receivables for telecommunication services by the following major customer groups:

	30 th June 2005	31 st December 2004
Residential customers	1 861 434	1 672 668
Corporate customers	366 270	320 779
Government customers	162 964	116 616
Total	2 390 668	2 110 063

The Company invoices its governmental and corporate customers for telecommunication services in roubles on a monthly basis. For residential customers, the Company sends monthly payment requests and substantially relies upon these customers to remit payments in time 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. In limited circumstances, the

Company has billed and collected penalties associated with delays in payment and has been able to obtain certain payments through the Arbitrage Courts.

9. Other current assets

The Company's other current assets as of 30th June 2005 and 2004 comprised the following:

	30 th June 2005	31 st December 2004
VAT recoverable	740 484	953 640
Deferred expenses	172 804	160 909
Other payments and current assets	95 173	86 461
Prepayments and advance payments	123 465	70 987
Settlements with personnel	18 987	13 262
Other prepaid taxes	18 358	18 261
Total	1 169 271	1 303 520

10. Cash and cash equivalents

The Company's cash and cash equivalents as of 30th June 2005 and 2004 comprised the following:

	30 th June 2005	31 st December 2004
Cash at bank and on hand	183 231	252 993
Short-term deposits with original maturities of three months or less	1 050 087	396
Total	1 233 318	253 389

As of 30th June 2005 the Company had no restrictions as to spending the money on its bank accounts.

11. Authorized capital

All shares permitted for issue and issued shares listed in the table below have been completely paid for. All issued shares have a par value of 1 rouble per share. Of all the shares issued as of 30th June 2005 ordinary shares made 77.87 % and Class A preferred shares made 22.13 %. The difference between the total par value and the total carrying value reflects the inflation effect for the previous years. The number of stated, but not floated, ordinary and preferred shares is 6 098 (6 098 in 2004) and 32 486 (32 486 in 2004).

The ordinary shareholders are allowed one vote per share. Class A preferred shares entitle their holder to participation in general meetings of the shareholders without the right of vote, except for taking decisions on the issues of reorganization and liquidation of the Company and introducing amendments and additions to the Articles of Association of the Company, that could restrict the rights of the holders of preferred shares. Preferred shares do not entitle their holder to demand redemption of shares or their conversion, however, they entitle the holder to getting a noncumulative dividend to the amount of 10% of the net profit according to the data of the accounts and reports made up in compliance with the Russian accounting rules.

The annual amount of dividends on Class A preferred shares may not be less than dividends on ordinary shares. Thus, holders of preferred shares participate in profits on a par with holders of ordinary shares, therefore preferred shares are taken into account for the purposes of calculating profit per share. When the Company does not pay dividends or when the Company has not received profit after a year's operation, holders of preferred shares get the right of vote in respect of all issues included in the terms of reference of the general meeting of the shareholders.

The par value of all issued ordinary and preferred shares as of 30th June 2005 did not change as compared to the year 2004 and is 881 045 thousand roubles and 250 369 thousand roubles respectively.

12. Earnings (loss) per share

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares circulating during the reporting period, except for the weighted average number of ordinary shares acquired by the Company and reflected as redeemed own shares.

	30 th June 2005	31 st December 2004
Weighted average number of issued preferred shares (thousands)	250 369	214 076
Weighted average number of issued ordinary shares (thousands)	881 045	772 100
Adjustment by the weighted average number of redeemed own shares (thousands)	(3 104)	(3 894)
Weighted average number of issued ordinary and preferred shares (thousands)	1 128 310	982 282
Net income	1 024 742	705 318
Earnings per share (basic/diluted)	0.91	0.72

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

13. Debts under credits and loans

Short-term debts

The Company's short-term debts as of 30th June 2005 and 2004 in respect of credits and loans comprised the following:

	Interest rate (%)	30 th June 2005	31 st December 2004
Bank loans (roubles)	9.5 – 15%	563 674	113 411
Vendor financing (US Dollars)	8 – 10%	260	17 785
Interest payable under bank loans, bonds in roubles, promissory notes and credits of vendors		82 508	9 399
Total short-term borrowings		646 442	140 595

Long-term debts

The Company's long-term debts as of 30th June 2005 and 2004 in respect of credits and loans comprised the following:

	Interest rate	30 th June 2005	31 st December 2004
Bank loans (roubles)	9.7 – 13.5%	1 929 684	2 962 900
Bank loans (euros)	3 – 8.5%	184 096	194 753
Total bank loans		2 113 780	3 157 653
Bonds (roubles)		4 451 166	1 500 288

Vendor financing (roubles)	6.5 - 9%	846	2 107
Vendor financing (US dollars)	6.5 - 9%	489 663	701 608
Vendor financing (euros)	6.5 - 9%	155 098	214 360
Total vendor financing		645 607	918 075
Promissory notes (roubles)		5 390	1 649
Promissory notes (US dollars)	6 – 8.5%	20 568	28 000
Promissory notes (euros)		25 211	24 688
Total promissory notes		51 169	54 337
Other loans (roubles)		10 517	6 745
Other loans (US dollars)		7 149	9 136
Total other loans		17 666	15 881
Less: current portion of long-term borrowings		(2 588 320)	(2 465 835)
Total long-term borrowings		4 691 068	3 180 399

Long-term borrowings include the debt in respect of interest to the amount of 5,243 thousand roubles as of 30th June 2005 (7 637 in 2004). As repayment of the said debt in respect of interest is not expected before the year 2006, it has been classified as a long-term debt.

14. Accounts payable and accrued liabilities

The Company's accounts payable and other current liabilities as of 30th June 2005 and 2004 comprised the following:

	30th June 2005	31st December 2004
Wages and reimbursement payable	510 179	744 359
Settlements with vendors and contractors for deliveries of equipment and capital construction	174 583	676 454
Subscribers' advances	277 969	351 472
Trade accounts payable	310 114	238 576
Other accounts payable	82 762	48 622
Total	1 355 607	2 059 483

Other accounts payable include accounts payable to the Nonprofit partnership, for voluntary property insurance and trade union dues.

15. Taxes payable and social security payable

The Company's short-term taxes payable as of 30th June 2005 and 2004 comprised the following:

	30th June 2005	31st December 2004
Value added tax	490 744	496 015
Single social tax	147 631	199 154
Property tax	86 059	85 930

Tax on income of individuals	41 545	23 698
Other taxes	6 254	4 895
Total	772 233	809 692

Value added tax of 354 009 thousand roubles (352 060 thousand roubles in 2004) is payable to tax authorities only after payment is received from buyers or after the respective accounts receivable are written off.

16. Income

	6 months of 2005	2004
By types of income		
Income from local phone calls	3 887 990	5 582 458
Long-distance phone calls	2 587 801	4 184 802
International phone calls	761 337	1 368 668
Services to Russian telecommunication operators	515 813	809 428
Other communication services	496 918	785 350
New services	493 405	681 103
Installation and connection fee	353 251	630 953
Broadcasting and telecasting	162 528	231 463
Data transmission services and telematic services	117 527	197 976
Provision of telephone channels for use	115 975	110 860
Document telecommunication	27 334	58 136
Other services	393 027	766 203
Total	9 912 906	15 407 400

The Company recorded realization by the following basic groups of clients:

	6 months of 2005	2004
By groups of clients		
Residential customers	5 911 979	8 032 289
Corporate customers	3 191 458	5 258 248
Government customers	808 721	1 112 094
Budget – tariff compensation	748	1 004 769
Total	9 912 906	15 407 400

17. Other operating expenses, net

	6 months of 2005	2004
Payments to the Nonprofit partnership	59 599	128 042
Prime cost of sold goods	25 971	90 022
Bank service fee	62 020	88 587
Current assets retirement	12 648	60 600
Agent's remuneration	45 931	55 836
Charity and sponsorship fees	16 629	33 317
Civil defense	19 934	32 786
Expenses for training	21 151	30 407
Profit from writing off punitive interest on the credit of CJSC Vnesheconombank		(115 103)

Penalty	(1 385)	(19 084)
Profit from writing off accounts payable upon expiry of the period of limitation of the statement of claim	(3 248)	(4 547)
General and administrative expenses	576 758	909 359
Other losses, net	120 246	79 542
Total	956 254	1 369 764

18. Interest expenses, net

	6 months of 2005	2004
Interest income	(49 369)	(12 954)
Interest expenses	483 054	320 895
Interest expenses accrued under finance leases	73 379	136 784
Less: Capitalized interest	(142 670)	(118 928)
Total	364 394	325 797