

**ОАО “Sibirtelecom”**  
**Consolidated Financial Statements**  
*Year ended December 31, 2004*  
*with Independent Auditor’s Report*

OAO “Sibirtelecom”

Consolidated Financial Statements

For the year ended December 31, 2004

**Contents**

Independent Auditors’ Report.....	1
Consolidated Financial Statement	
Consolidated Balance Sheet.....	3
Consolidated Statement of Operations .....	4
Consolidated Statement of Cash Flows .....	5
Consolidated Statements of Changes in Shareholders’ Equity .....	6
Notes to the Consolidated Financial Statements .....	7

## Independent Auditors' Report

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

1. We have audited the accompanying consolidated balance sheet of OAO "Sibirtelecom" (a Russian open joint-stock company - hereinafter "the Company"), as of December 31, 2004, 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 paragraph 3 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", the Company has transitioned to International Financial Reporting Standards (IFRS) at January 1, 2003 and applied an exemption in IFRS 1, "First-time Adoption of International Financial Reporting Standards", which permits 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. However, we were not able to satisfy ourselves as to (i) whether the carrying amounts of property, plant, and equipment as at January 1, 2003 are representative of fair value; (ii) resulting depreciation expense for the years presented and (iii) the respective deferred tax balances as of the reporting dates and deferred tax expense for the years presented.
4. As described in Note 3 "Summary of Significant Accounting Policies", the Company has not determined and presented its obligations existing under defined benefit plans in accordance with IAS 19, "Employee Benefits". We were not able to quantify the respective adjustments to the financial statements for the years presented.

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 paragraph 3, and except for the effect on the financial statements of the matter referred to in paragraph 4 above, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OAO "Sibirtelecom" as of December 31, 2004, and the consolidated results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

*ZAO Ernst & Young Wirtschaftsprüfungsgesellschaft*

May 16, 2005

**ОАО “Sibirtelecom”**  
**Consolidated Balance Sheet**  
**For the year ended December 31, 2004**  
*(in thousands rubles)*

	Notes	2004	2003
<b>ASSETS</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	5	25,611,489	20,451,126
Intangible assets and goodwill	6	2,205,958	1,325,912
Investments in associates	8	35,735	35,035
Long-term investments	9	72,360	40,816
Long-term accounts receivable and other financial assets	13	178,721	89,427
Long-term advances given	10	319,862	191,852
<b>Total non-current assets</b>		<b>28,424,125</b>	<b>22,134,168</b>
<b>Current assets:</b>			
Inventories	11	608,412	546,171
Accounts receivable	12	1,761,796	1,402,758
Short-term investments	9	161,901	433,645
Other current assets	14	1,989,953	1,215,465
Cash and cash equivalents	15	438,573	607,685
<b>Total current assets</b>		<b>4,960,635</b>	<b>4,205,724</b>
<b>TOTAL ASSETS</b>		<b>33,384,760</b>	<b>26,339,892</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity:</b>			
Preference shares	17	869,371	869,371
Ordinary shares	17	2,671,760	2,671,760
Change in the fair value of financial assets available for sale		12,712	54,746
Retained earnings		13,022,096	11,279,593
<b>Total shareholders' equity</b>		<b>16,575,939</b>	<b>14,875,470</b>
<b>Minority interest</b>	18	<b>10,635</b>	<b>6,721</b>
<b>Non-current liabilities:</b>			
Long-term borrowings	19	5,428,512	2,613,376
Finance lease obligations	20	877,756	1,140,841
Long term taxes payable	22	55,806	62,221
Deferred revenue		228,978	242,688
Deferred income tax liability	29	1,710,706	1,681,573
Other non-current liabilities		21,051	8,610
<b>Total non-current liabilities</b>		<b>8,322,809</b>	<b>5,749,309</b>
<b>Current liabilities:</b>			
Accounts payable, accrued expenses and advances received	21	2,599,005	2,079,955
Payables to Rostelecom	34	158,780	145,995
Taxes payable	22	1,087,705	897,824
Dividends payable		69,214	66,368
Short-term borrowings	19	1,651,020	636,781
Current portion of long-term borrowings	19	2,542,567	1,345,329
Current portion of finance lease obligations	20	367,086	536,140
<b>Total current liabilities</b>		<b>8,475,377</b>	<b>5,708,392</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>33,384,760</b>	<b>26,339,892</b>

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

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

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

OAO "Sibirtelecom"  
 Consolidated Statement of Operations  
 For the year ended December 31, 2004  
*(in thousands rubles)*

	Notes	2004	2003
<b>Revenues</b>	<b>24</b>	22,602,408	17,686,857
<b>Operating expenses:</b>			
Wages, salaries, other benefits and payroll taxes		(7,756,387)	(5,913,006)
Depreciation and amortization	<b>5, 6</b>	(2,462,521)	(1,821,342)
Loss on disposal of property, plant, and equipment		(70,112)	(252,172)
Materials, repairs and maintenance, utilities		(1,995,356)	(1,772,850)
Taxes other than income tax		(398,800)	(327,107)
Interconnection charges		(3,368,925)	(2,576,432)
Provision for impairment of receivables	<b>12</b>	(297,092)	(394,227)
General and administrative expenses	<b>25</b>	(1,223,467)	(903,770)
Other operating expenses, net	<b>26</b>	(1,380,431)	(949,488)
<b>Total operating expenses</b>		<b>(18,953,091)</b>	<b>(14,910,394)</b>
<b>Operating profit</b>		<b>3,649,317</b>	<b>2,776,463</b>
Share of result of associates	<b>8</b>	6,766	206,479
Interest expense, net	<b>27</b>	(785,204)	(484,788)
Gain from sale of investments	<b>28</b>	106,464	279,937
Foreign exchange gain, net		52,987	54,313
<b>Profit before income tax and minority interest</b>		<b>3,030,330</b>	<b>2,832,404</b>
<b>Income tax</b>	<b>29</b>	(1,001,349)	(872,925)
<b>Profit before minority interest</b>		<b>2,028,981</b>	<b>1,959,479</b>
<b>Minority interest</b>	<b>18</b>	(1,423)	(41,856)
<b>Net profit</b>		<b>2,027,558</b>	<b>1,917,623</b>
<b>Basic and diluted earnings per share (Russian Rubles)</b>	<b>30</b>	<b>0.12736</b>	<b>0.12046</b>

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

OAO “Sibirtelecom”  
Consolidated Statement of Cash flows  
For the year ended December 31, 2004  
*(in thousands rubles)*

	2004	2003
<b>Cash flows from operating activities:</b>		
Profit before income tax and minority interest	<b>3,030,330</b>	<b>2,832,404</b>
<b>Adjustments for:</b>		
Depreciation and amortization	2,462,521	1,821,342
Loss on disposal of property, plant and equipment	70,112	252,172
Provision for impairment of receivables	297,092	394,227
Share of result of associates	(6,766)	(206,479)
Gain from sale of investments	(106,464)	(279,937)
Interest expense, net	785,204	484,788
Foreign exchange gain, net	(52,987)	(54,313)
<b>Operating cash flows before working capital changes</b>	<b>6,479,042</b>	<b>5,244,204</b>
Increase in accounts receivable	(758,639)	(443,087)
Increase in other current assets	(557,287)	(130,771)
Increase in inventories	(62,241)	(10,634)
Increase (decrease) in accounts payable and accrued expenses	108,979	(15,130)
Increase in taxes payable	137,515	239,806
<b>Cash flows generated from operations</b>	<b>5,347,369</b>	<b>4,884,388</b>
Interest paid	(1,143,880)	(499,373)
Income tax paid	(918,684)	(703,167)
<b>Net cash flows from operating activities</b>	<b>3,284,805</b>	<b>3,681,848</b>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(6,838,097)	(3,634,934)
Purchase of intangible assets	(349,983)	(760,637)
Proceeds from sales of property, plant and equipment	7,582	44,757
Purchase of subsidiaries	(46,175)	(675,032)
Proceeds from disposal of investments and other financial assets	267,053	283,967
Interest received	39,535	17,781
Dividends received	9,629	10,958
<b>Net cash flows used in investing activities</b>	<b>(6,910,456)</b>	<b>(4,713,140)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from promissory notes	456,514	–
Repayment of promissory notes	(23,726)	–
Proceeds from borrowings	5,281,727	5,078,888
Repayment of borrowings	(3,636,460)	(4,557,762)
Proceeds from debt securities issued	2,300,000	1,530,000
Repayment of finance lease obligations	(496,182)	(360,101)
Repayment of vendor financing obligations	(186,958)	(323,553)
Proceeds from other non-current liabilities	11,857	23,053
Dividends paid	(250,363)	(164,789)
<b>Net cash flows from financing activities</b>	<b>3,456,409</b>	<b>1,225,736</b>
<b>Effects of exchange rate changes on cash and cash equivalents</b>	<b>130</b>	<b>(14,736)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(169,112)</b>	<b>179,708</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>607,685</b>	<b>427,977</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>438,573</b>	<b>607,685</b>

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

OAO “Sibirtelecom”  
 Consolidated Statement of Changes in Shareholders’ Equity  
 For the year ended December 31, 2004  
 (in thousands rubles)

	Notes	Share capital		Retained earnings	Change in the fair value of financial assets available for sale	Total shareholders’ equity
		Preference shares	Ordinary shares			
<b>At December 31, 2002</b>		<b>869,371</b>	<b>2,671,760</b>	<b>9,747,987</b>		<b>13,289,118</b>
Net profit for the year				1,917,623		1,917,623
Minority purchase	7			(260,216)		(260,216)
Change in the fair value of financial assets available-for-sale					54,746	54,746
Dividends	31			(125,801)		(125,801)
<b>At December 31, 2003</b>		<b>869,371</b>	<b>2,671,760</b>	<b>11,279,593</b>	<b>54,746</b>	<b>14,875,470</b>
Net profit for the year				2,027,558		2,027,558
Minority purchase	7			(31,846)		(31,846)
Change in the fair value of financial assets available-for-sale					5,742	5,742
Realized gains on financial assets sold					(47,776)	(47,776)
Dividends	31			(253,209)		(253,209)
<b>At December 31, 2004</b>		<b>869,371</b>	<b>2,671,760</b>	<b>13,022,096</b>	<b>12,712</b>	<b>16,575,939</b>

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



OAO “Sibirtelecom”  
Notes to Consolidated Financial Statement  
For the year ended December 31  
*(in thousands rubles)*

**1. General Information**

**Authorization of Accounts**

The consolidated financial statements of OAO “Sibirtelecom” and its subsidiaries – (hereinafter “the Company”) for the year ended December 31, 2004 were authorized for issue by the General Director and Chief Accountant of the Company on May 16, 2005.

**The Company**

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

Open joint-stock company OAO Svyazinvest, a federal holding company controlled by the Russian Federation, owns 50.67% of the Company’s ordinary shares as of December 31, 2004.

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

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

The average number of employees in the Company in 2004 was approximately 47 thousand persons (2003 - 48).

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

**Tariff Setting**

Under the Russian legislation, the Company is considered a monopolist for fixed line telecommunication services. As a result, tariffs charged by the Company are set by federal authorities. Tariffs charged to the Company by Rostelecom (the primary provider of domestic long distance and international telecommunication services in the Russian Federation, which is controlled by OAO Svyazinvest) are also subject to state regulation, thus creating a cross-subsidization mechanism.

# ОАО “Sibirtelecom”

## Notes to Consolidated Financial Statement (continued)

*(in thousands rubles)*

### **1. General Information (continued)**

#### **Liquidity and Going Concern**

As of December 31, 2004, the Company’s current liabilities exceeded its current assets by approximately 3,514,742 (2003 – 1,502,668). As a result, there may be some doubt 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 and expansion of its telecommunication network. This financing has historically been provided through bank loans, bonds, vendor financing, and finance lease.

Through 2005, the Company anticipates funding from a) cash generated from operations; b) placement of Ruble bonds in the Russian market; c) financing from domestic and international lending institutions. Management also 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.

The accompanying 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 result 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.

### **2. Basis of Presentation of the Financial Statements**

#### **Basis of Preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Company has transitioned to IFRS at the beginning of the earliest period presented in these financial statements (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 financial statements. The Company’s previous financial statements disclosed that management made certain estimates and assumptions to present the carrying value of fixed assets which did not comply with historical cost as defined by IAS 16, “Property, plant, and equipment”.

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.

## ОАО “Sibirtelecom”

### Notes to Consolidated Financial Statement (continued)

*(in thousands rubles)*

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

##### **Basis of Preparation (continued)**

The Company has also applied the exemption permitted by IFRS 1 which allows an entity to recognize all cumulative actuarial gains and losses 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.

Further the Company did not apply the provision of IAS 19 “Employee benefits” and as such did not account for defined benefit obligations. However the Company has engaged an actuary to assess the pension obligation and as a result, the defined benefit obligation will be recorded in subsequent periods.

##### **Accounting for the Effect of Inflation**

Prior to January 1, 2003 the characteristics of the economic environment of the Russian Federation indicated the existence of hyperinflation. Non-monetary assets and liabilities acquired prior to December 31, 2002 (except for the property, plant and equipment, for which fair values as at January 1, 2003 have been used as deemed cost), and share capital transactions occurring before December 31, 2002, have been restated in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies” by applying the relevant conversion factors to the historical cost through December 31, 2002.

##### **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 fixed assets and deferred taxation, as discussed in Notes 5 and 29.

OA0 “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

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

**Reconciliation of Equity and Net Profit Reported under Previous GAAP and under IFRS**

Shareholders’ equity and net profit are reconciled between previous Generally Accepted Accounting Principles (GAAP) and IFRS as follows:

	Shareholders’ equity as at December 31, 2003	Net profit for the year ended December 31, 2003	Shareholders’ equity as at January 1, 2003
<b>Previous GAAP as reported</b>	<b>14,761,206</b>	<b>1,883,000</b>	<b>13,052,883</b>
- preference dividends reversal	150,134	–	46,512
- interconnection charges reversal, net of tax effect	97,332	11,195	86,137
<b>Previous GAAP as restated</b>	<b>15,008,672</b>	<b>1,894,195</b>	<b>13,185,532</b>
Goodwill amortization	18,963	18,963	–
Fair value revaluation of fixed assets and intangible assets in subsidiaries, net of tax effect	108,051	4,465	103,586
Minority interest purchase (Note 7)	(260,216)	–	–
<b>International Financial Reporting Standards</b>	<b>14,875,470</b>	<b>1,917,623</b>	<b>13,289,118</b>

The previous GAAP refers to the Company’s prior year financial statements, in which the Company applied some, but not all, IFRS as described above.

**3. Summary of Significant Accounting Policies**

**3.1 Principles of Consolidation**

*Subsidiaries*

The consolidated financial statements include financial statements of subsidiaries, the entities in which the Company has an interest of more than one half of the voting rights, or otherwise has power to exercise control over its operations. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between parent and/or subsidiary companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Financial statements of OAO “Sibirtelecom” and its subsidiaries and associates, based on which the consolidated financial statements are prepared, are based on unified accounting policy.

OAO “Sibirtelecom”  
Notes to Consolidated Financial Statement (continued)  
(in thousands rubles)

**3. Summary of Significant Accounting Policies (continued)**

**3.1 Principles of Consolidation (continued)**

*Acquisition of Subsidiaries*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. Identifiable assets acquired, 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*

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 equity since the date of the combination. Minority interest is presented separately from liabilities and shareholders’ equity.

*Acquisition of Subsidiaries’ Minority Interest*

IFRS 3 “Business Combinations” applies only to business combinations, such as the acquisition of a subsidiary, whereby the acquirer has obtained control over the business. However, the standard is silent on how later exchange transactions should be accounted for, such as the acquisition of some or all of the minority interest in a subsidiary. The Company does not remeasure the assets and liabilities of the subsidiary to reflect their fair values at the date of the transaction. 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 acquisition of the minority interest as a charge to retained earnings.

**3.2 Investments in Associates**

Associates are entities in which the Company generally owns 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 by the equity method of accounting 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 obligated to make further payments to, or on behalf of, the associate.

OAO “Sibirtelecom”  
Notes to Consolidated Financial Statement (continued)  
*(in thousands rubles)*

**3. Summary of Significant Accounting Policies (continued)**

**3.2 Investments in Associates (continued)**

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

**3.3 Other Investments**

The Company classified its investments into the following categories: held-to-maturity and available-for-sale. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for the cases when they are to be recovered within 12 months after the reporting date. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These investments are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management of the Company determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Available-for-sale investments are carried at fair value. A gain or loss arising from a change in the fair value of an available for sale investment is recognized directly in equity until the investment is sold, collected or otherwise disposed of, or until it is determined to be impaired. Upon disposal, cumulative gain or loss previously recognized as a component of equity, is included in the statement of operations.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

**3.4 Foreign Currency Transactions**

The measurement and presentation currency of the Company is the Russian Ruble, which is the national currency of the Russian Federation. Transactions in foreign currencies are initially recorded in the presentation currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the presentation 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.

Assets and liabilities settled in Rubles 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.

## ОАО “Sibirtelecom”

### Notes to Consolidated Financial Statement (continued)

*(in thousands rubles)*

#### 3. Summary of Significant Accounting Policies (continued)

##### 3.5 Property, Plant and Equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and any 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.

Depreciation is calculated on a straight-line basis. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

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

For the purposes of disclosure, property, plant and equipment are aggregated into the following groups:

- Land, buildings and constructions;
- Switches and transmission devices;
- Construction in progress and equipment for installation;
- Other assets, in which computers, vehicles and other equipment are included.

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.

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

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.

## ОАО “Sibirtelecom”

### Notes to Consolidated Financial Statement (continued)

*(in thousands rubles)*

#### **3. Summary of Significant Accounting Policies (continued)**

##### **3.5 Property, Plant and Equipment (continued)**

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalized and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

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 carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value 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. In assessing value in use, the estimated future cash flows are discounted to their present value 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 flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of operations.

##### **3.6 Intangible Assets and Goodwill**

###### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company’s share of the net assets of the acquired subsidiary/associated undertaking 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. Goodwill is not amortized but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying amount may be impaired. As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination’s synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are 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.

The excess of the fair value of the Company’s share of the net assets acquired over the cost of acquisition is recognized in the statement of operations.



OAO “Sibirtelecom”  
Notes to Consolidated Financial Statement (continued)  
(in thousands rubles)

**3. Summary of Significant Accounting Policies (continued)**

**3.6 Intangible Assets and Goodwill (continued)**

*Other Intangible Assets*

Other intangible assets are capitalized at cost.

The Company measured GSM licenses at the date of transition to IFRS at the fair value and used that fair value as deemed cost at that date.

Licenses and software are depreciated on a straight-line basis over the estimated useful life equal to the term of license or of the right to use the software. Useful life of other intangible assets is 5-15 years.

*Impairment of Intangible Assets*

Where an indication of impairment exists, the carrying amount of any intangible asset, is assessed and, when impaired, the asset is written down immediately to its recoverable amount. Intangibles with indefinite lives and those not ready for use are tested for impairment annually or more frequently if events or changes in circumstances indicate that carrying amount may be impaired.

**3.7 Inventories**

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

Cost of inventory is determined on the weighted average basis.

**3.8 Accounts Receivable**

Accounts receivable are stated at original invoice amount, less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

Accounts that are individually significant are assessed for uncollectability and recognized individually. Uncollectability is measured and recognized on a portfolio basis for accounts of similar customers that are not individually identified as doubtfully recoverable.

The amount of the provision is recognized in the statement of operations.

OAO “Sibirtelecom”  
Notes to Consolidated Financial Statement (continued)  
(in thousands rubles)

**3. Summary of Significant Accounting Policies (continued)**

**3.9 Value Added Tax**

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis.

*Value added tax recoverable*

VAT recoverable relates to purchases which have not been settled at the balance sheet date. VAT recoverable is reclaimable against sales VAT upon payment for the purchases.

*Value added tax payable*

Value added tax payable represents VAT related to sales which is payable to tax authorities upon collection of receivables from customers net of VAT on purchases which have been settled at the balance sheet date. In addition, VAT related to sales which have not been settled at the balance sheet date (VAT deferred) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

**3.10 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.

**3.11 Borrowings**

Borrowings are initially recognized at cost, being the fair value of the consideration received, net of transaction costs incurred. In subsequent periods, borrowings are measured at amortized cost using the effective interest rate method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognized as interest expense over the period of the borrowings.

**3.12 Leases**

Finance leases of equipment that transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company are capitalized at the inception of the lease at the market value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

Capitalized leased assets are depreciated using the straight-line method over the estimated useful life of the asset like other fixed assets within the same class, with consideration of the contractual terms under which the assets can be used.

OAO “Sibirtelecom”  
Notes to Consolidated Financial Statement (continued)  
*(in thousands rubles)*

**3. Summary of Significant Accounting Policies (continued)**

**3.12 Leases (continued)**

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of operations on a straight-line basis over the lease term.

**3.13 Pensions and Other Post-Employment Benefits**

*Unified social tax*

Social contributions are made through a unified social tax (UST) calculated by the Company by the application of a regressive rate (from 35.6% to approximately 18%) 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 28% 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.

*Other pension plans and post-employment benefits*

Under collective bargaining agreements and internal regulations on additional pension benefits, the Company also provides benefits for its employees by using post-employment 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.

Post-employment benefit plans include defined contribution plans and defined benefit plans.

Defined contribution plan is a post-employment benefit plan under which the Company's obligation is limited solely to the amount of a contribution it agrees to pay into a fund. In this case all actuarial and investment risks will be borne by employees. The Company recognizes contributions under a defined contribution plan in the period to which they are attributable.

Under defined benefit plans, the Company’s obligation is to provide the agreed benefits to current and former employees. In this case actuarial and investment risks fall on the Company.

The Company has applied the exemption permitted by IFRS 1 which allows an entity to recognize all cumulative actuarial gains and losses at the date of transition even if the corridor approach is used for latter actuarial gains and losses. However, an actuarial valuation has not been completed yet. Therefore, the defined benefit pension obligation will be recorded in subsequent periods, when the results of actuarial valuation will be available.

OAO “Sibirtelecom”  
Notes to Consolidated Financial Statement (continued)  
*(in thousands rubles)*

**3. Summary of Significant Accounting Policies (continued)**

**3.14 Deferred Income Taxes**

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 basis 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 the initial recognition 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.

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.

**3.15 Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and 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, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the 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 an interest expense.

**3.16 Shareholders' Equity**

*Share capital*

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognized as a share premium.

## ОАО “Sibirtelecom”

### Notes to Consolidated Financial Statement (continued)

*(in thousands rubles)*

#### **3. Summary of Significant Accounting Policies (continued)**

##### **3.16 Shareholders' Equity (continued)**

###### *Dividends*

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared 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.

##### **3.17 Revenue**

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

The Company categorizes the revenue sources in thirteen major categories:

1. Long distance telephone calls - domestic;
2. Long distance telephone calls - international;
3. Local telephone calls;
4. Installation and connection fees;
5. Documentary services;
6. Cellular services;
7. Radio and TV broadcasting;
8. Data transfer and telematic services;
9. New services;
10. Rent of telephone channels;
11. Services for national operators;
12. Other telecommunications services;
13. 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.

OAO “Sibirtelecom”  
Notes to Consolidated Financial Statement (continued)  
*(in thousands rubles)*

**3. Summary of Significant Accounting Policies (continued)**

**3.17 Revenue (continued)**

*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 into 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.

*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 telematic services*

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

*New services*

Major revenues from new services include internet services, ISDN, 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.

OAO “Sibirtelecom”  
Notes to Consolidated Financial Statement (continued)  
*(in thousands rubles)*

**3. Summary of Significant Accounting Policies (continued)**

**3.17 Revenue (continued)**

*Services for national operators*

Revenue from national service providers includes two different groups.

First group of revenues represents services rendered to OAO Rostelecom for termination of long-distance traffic of its operators-partners in the network of the Company.

In 2003 Ministry of Russian Federation for antimonopoly policy and entrepreneurial support (MAP) has conducted reform of the settlements system of multi regional OAO Svyazinvest Companies with the OAO Rostelecom for transit of intercity long-distance traffic. Till August 1, 2003 revenue calculation has been based on the integral settlement rate, multiplied on the total number of minute-distances (transfer of 1 minute of traffic on 50 kilometers interval of OAO Rostelecom’s network), transferred through the period.

Integral settlement rate has been calculated as sum of linear settlement rate between zones and difference between inbound and outbound termination settlement rates of the regional Companies. The rate has been calculated and agreed by the MAP once per year according to traffic statistics of previous year, thus it has not reflected real economical benefits and costs related to changes of the incoming and outgoing structure of the traffic in the current settlement period.

In August 2003 new and more transparent inter-operators settlement system for intercity traffic has been introduced. New system separates payments of regional operators for the transfer of intercity traffic in OAO Rostelecom’s network and termination of the traffic in the zone, where outgoing intercity call of own subscriber reaches its destination, and payments for the termination of the incoming intercity traffic from other operators in the own network of the Company.

Calculation of the costs for the transit of intercity traffic is based on the new settlement rate, that is equal to sum of linear settlement rate multiplied on the quantity of 50 kilometers intervals between zones and termination settlement rate for the zone where the call is terminated. Revenue calculation for the transit of intercity traffic from Rostelecom to the customers of the regional OAO Svyazinvest’s company is based on the termination settlement rates. New rates have been defined by the order of the MAP dated July 4, 2003.

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.

Major revenues are recognized from the services for transit of local, intercity and international traffic. As well 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.

OAO “Sibirtelecom”  
Notes to Consolidated Financial Statement (continued)  
(in thousands rubles)

**3. Summary of Significant Accounting Policies (continued)**

**3.17 Revenue (continued)**

*Other telecommunication services*

Other telecommunication services primarily consist of revenues received by public switched telephone network 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.

**3.18 Commitments**

A commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

Significant commitments are disclosed. Assets to be acquired and liabilities to be incurred as a result of the Company’s commitment to purchase or sell goods or services are not recognized until at least one of the parties has performed under the agreement such that it either is entitled to receive an asset or is obligated to disburse an asset.

**3.19 Contingencies**

Contingent liabilities are not recognized in the financial statements as it is not probable that a liability will need to be settled or the outcome is dependant on a future event. They are disclosed in the accompanying notes unless the possibility of an outflow of resources embodying economic benefit is remote.

Contingent assets are not recognized in the financial statement but disclosed when an inflow of economic benefits is probable.



OAO “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

4. Segment Information

	2004				2003					
	Fixed line	Mobile	Other	Intercompany eliminations	Total for the Company	Fixed line	Mobile	Other	Intercompany eliminations	Total for the Company
<b>REVENUE</b>										
Sales to third parties	17,835,063	4,043,872	723,473		22,602,408	14,870,652	2,299,295	516,910		17,686,857
Inter-segment sales	284,698	11,712	41,917	(338,327)	–	206,820	12,301	82,594	(301,715)	
<b>Total revenue</b>	<b>18,119,761</b>	<b>4,055,584</b>	<b>765,390</b>	<b>(338,327)</b>	<b>22,602,408</b>	<b>15,077,472</b>	<b>2,311,596</b>	<b>599,504</b>	<b>(301,715)</b>	<b>17,686,857</b>
Segment result	3,062,063	2,132,083	555,100		<b>5,749,246</b>	3,250,061	1,002,007	53,118		<b>4,305,186</b>
Unallocated corporate expenses					(2,099,929)					(1,528,723)
<b>Operating profit</b>					<b>3,649,317</b>					<b>2,776,463</b>
Share of result of associates					6,766					206,479
Interest expense, net					(785,204)					(484,788)
Gain from other investments					106,464					279,937
Foreign exchange gain, net					52,987					54,313
Income tax					(1,001,349)					(872,925)
Minority interest					(1,423)					(41,856)
<b>Net profit</b>					<b>2,027,558</b>					<b>1,917,623</b>

OAO “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

4. Segment Information (continued)

	2004				2003					
	Fixed line	Mobile	Other	Intercompany eliminations	Total for the Company	Fixed line	Mobile	Other	Intercompany eliminations	Total for the Company
<b>OTHER INFORMATION</b>										
Segment assets	28,420,794	4,910,961	17,270		33,349,025	23,887,770	2,372,077	45,010		26,304,857
Investments in associates					35,735					35,035
<b>Consolidated total assets</b>					<b>33,384,760</b>					<b>26,339,892</b>
Segment liabilities	(12,817,824)	(1,731,814)	(10,487)		<b>(14,560,125)</b>	(8,522,962)	(844,568)	(13,574)		<b>(9,381,104)</b>
Unallocated corporate liabilities					(2,238,061)					(2,076,597)
<b>Consolidated total liabilities</b>					<b>(16,798,186)</b>					<b>(11,457,701)</b>
Capital expenditure	6,601,544	2,022,551	3,036		8,627,131	4,053,663	821,761	24,545		4,899,969
Depreciation and amortization	2,098,956	363,565			2,462,521	1,661,167	160,175			1,821,342
Other non-cash expenses, excl. depreciation (bad debt expenses)	290,855	6,237			297,092	343,063	32,687	18,477		394,227

OA O “Sibirtelecom”

Notes to Consolidated Financial Statement

(in thousands rubles)

**4. Segment Information (continued)**

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

Segment result represents operating profit before unallocated corporate expenses. Unallocated costs represent corporate expenses, such as payroll expenses in amount of 1,543,799 (2003 – 1,039,768), consulting and information services expenses - 62,890 (2003 – 66,126), travel and representative expenses - 58,914 (2003 – 31,913) and other unallocated expenses, related to management and administrative personnel and other expenses.

Segment assets consist primarily of property, plant and equipment, intangible assets, receivables, and operating cash, and exclude investments and assets used for general Company’s purposes. Segment liabilities comprise operating liabilities and exclude items such as taxation, corporate borrowings, liabilities related to assets that are the subject of finance leases, deferred tax liabilities, and other liabilities pertaining to the Company as a whole.

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

**5. Property, Plant and Equipment**

	<b>Land, buildings and constructions</b>	<b>Switches and transmission devices</b>	<b>Construction in progress and equipment for installation</b>	<b>Vehicles and other</b>	<b>Total</b>
<b>Cost</b>					
At December 31, 2003	8,694,380	10,026,094	1,542,705	1,913,726	22,176,905
Additions	–	–	7,635,244	–	7,635,244
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	–
<b>At December 31, 2004</b>	<b>10,819,627</b>	<b>14,400,785</b>	<b>1,502,128</b>	<b>2,891,194</b>	<b>29,613,734</b>
<b>Accumulated depreciation</b>					
At 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)
Depreciation charge of subsidiaries acquired	–	(2,971)	–	–	(2,971)
Disposals due to sale of subsidiaries	154	1,687	–	1,684	3,525
Disposals	13,386	33,981	–	14,344	61,711
<b>At December 31, 2004</b>	<b>(1,043,131)</b>	<b>(2,270,893)</b>	<b>–</b>	<b>(688,221)</b>	<b>(4,002,245)</b>
<b>Net book value as of December 31, 2003</b>	<b>8,178,573</b>	<b>9,035,047</b>	<b>1,542,705</b>	<b>1,694,801</b>	<b>20,451,126</b>
<b>Net book value as of December 31, 2004</b>	<b>9,776,496</b>	<b>12,129,892</b>	<b>1,502,128</b>	<b>2,202,973</b>	<b>25,611,489</b>

OAO “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

*(in thousands rubles)*

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

The net book value of plant and equipment held under finance leases at December 31, 2004 is 1,960,467 (2003 – 1,675,604). Leased assets are pledged as security for the related finance lease obligations (see Note 20).

Net book value of property, plant and equipment, which were received on vendor financing terms in the year ended December 31, 2004, amounted to 345,688 (2003 – 267,380).

In 2004, the Company increased construction in progress by the amount of capitalized interest totaling 237,649 (2003 – 184,969). Capitalization rate in 2004 was 13% (2003 – 15%).

At 31 December 2004 bank borrowings are secured by properties to the carrying value of approximately 7,783,000 (2003 – 4,671,000) (see Note 19).

Net book value of property, plant and equipment, which were subject to joint ownership as of December 31, 2004, amounted to 768 (2003 - 368).

**6. Intangible Assets and goodwill**

	<b>Goodwill</b>	<b>Licenses</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>					
At 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)
<b>At December 31, 2004</b>	<b>14,931</b>	<b>615,362</b>	<b>1,776,239</b>	<b>43,730</b>	<b>2,450,262</b>
<b>Accumulated amortization</b>					
At 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
<b>At December 31, 2004</b>	<b>–</b>	<b>(117,226)</b>	<b>(112,778)</b>	<b>(14,300)</b>	<b>(244,304)</b>
<b>Net book value at December 31, 2003</b>	<b>5,511</b>	<b>529,768</b>	<b>757,264</b>	<b>33,369</b>	<b>1,325,912</b>
<b>Net book value at December 31, 2004</b>	<b>14,931</b>	<b>498,136</b>	<b>1,663,461</b>	<b>29,430</b>	<b>2,205,958</b>

Goodwill arose on the acquisition of ZAO Chita NET on August 28, 2004 and OAO Mobiltelecom on June 30, 2004 (see Note 7).

*Oracle E-business Suite software*

As of December 31, 2004 software includes Oracle E-business Suite software with a net book value of 825,179 (2003 – 630,673). In accordance with the supply contract, the Company has been provided with non-exclusive licenses for 12,400 users of E-business Suite 2003 Professional among other license applications. In 2004 the Company capitalized 95,823 of interest and 94,574 of other expenses associated with Oracle software implementation.

OA O “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**6. Intangible Assets and goodwill (continued)**

*Oracle E-business Suite software (continued)*

The Company shall amortize the value of this software starting from the date of its implementation, proportionally to the quantity of licenses used, over useful life of the licenses. Until then the Company annually tests this software for impairment.

Full implementation of Oracle E-Business Suite software is expected to be from 2005 till 2008.

*Amdocs Billing Suite software*

As of December 31, 2004 software also includes Amdocs Billing Suite software with net book value of 546,398 (2003 – nil). This software was purchased for the purpose of 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 purchase of Amdocs Billing Suite software on November 20, 2004.

Amdocs Billing Suite software was supplied in December 2004 by OOO IBM Eastern Europe/Asia, in exchange of zero coupon promissory notes in the amount of 644,192. Repayment of promissory notes issued is expected to be exercised by 2005-2006.

The Company shall start amortizing this asset starting from the date of software implementation. Until then the Company shall annually test this software for impairment.

Based on the results of the annual impairment test the Company’s management believes that the carrying values of goodwill and intangible assets are recoverable as of December 31, 2004 and 2003.

As of December 31, 2004 licenses also included GSM 900 licences with net book value 456,752 (2003 – 515,619). 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 them is about 10 years.

ОАО “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**7. Consolidated Subsidiaries**

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

Subsidiary	Main Activity	Ownership, %		Voting Shares	
		2004	2003	2004	2003
ZAO Eniseytelecom	Cellular of GSM 900, NMT 450 standard	100	100	100	100
ZAO Baykalwestcom	Cellular of GSM 900, NMT 450 standard	100	100	100	100
ZAO Sayantelecom	Cellular of GSM 900 standard	100	65	100	65
ZAO Chita Net	Internet	100	31.1	100	31.1
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
ООО Private Security Agency Ekrantelecom	Security activities	82.55	82.55	82.55	82.55
ОАО NGTS-PAGE	Paging	72.7	72.7	72.7	72.7
ZAO Region – net	CDMA telecom- munication services	66	66	66	66
ZAO Altaiskaya Investment Company	Re-selling activity	62.5	62.5	62.5	62.5
ОАО Mobiltelecom	Internet, paging	61.16	25.99	61.16	25.99
ОАО Regional Information Nets	Internet	51	51	51	51

On June 30, 2004 the Company acquired additional 35.17% of ordinary voting shares of ОАО Mobiltelecom for 4,923 in cash and obtained control over it (total share is 61.16%). The fair value of ОАО Mobiltelecom’s identifiable assets, liabilities and contingent liabilities approximated the book values.

On August 28, 2004 the Company acquired additional 68.9% of ordinary shares of ZAO Chita Net for 12,603 in cash and obtained control over it. The fair value of ZAO Chita Net’s identifiable assets, liabilities and contingent liabilities approximated the book value. The difference between the cost of the additional interest in the subsidiary and the acquired share of the assets and liabilities constituted the amount of 9,405.

On March 26, 2004 the Company acquired full minority interest of ZAO Sayantelecom (35% of ordinary shares) for 32,824 in cash and became 100% owner of it. The difference between the cost of the additional interest in the subsidiary and the minority interest’s share of the assets and liabilities in the amount of 31,846 is reflected as an equity transaction.

In March 2003, the Company acquired full minority interests of ZAO Baikwestcom and ZAO Eniseytelecom for \$21 million (approx. 675,000) in cash and became 100% owner of these entities. The difference between the cost of the additional interest in the subsidiaries and the minority interest’s share of the assets and liabilities in total amount of 260,216 is reflected as an equity transaction.

ОАО “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**8. Investments in Associates**

Investments in associates at December 31, 2004 and 2003 include:

Associate	Main activity	2004		2003	
		Voting shares	Carrying value	Voting shares	Carrying value
ZAO ATS-32	Rendering local telephone services	40%	13,338	40%	13,176
ZAO ATS-41	Rendering local telephone services	49%	9,456	49%	7,885
ZAO Novokom	Interconnection line rental	50%	7,389	50%	5,972
ООО Giprosvyaz-Sibir	Project engineering	24%	2,781	–	–
ZAO TeleRoss-Novosibirsk	Communication satellite services	50%	2,772	50%	3,079
ОАО Irkutskaya Rasschetnaya palata	Internet	34%	2,741	34%	2,741
ZAO Chita Net	Internet	–	–	31%	1,395
ОАО Mobiltelecom	Internet, paging	–	–	26%	3,528
Other			133		342
Impairment provision			(2,875)		(3,083)
<b>Total</b>			<b>35,735</b>		<b>35,035</b>

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

On February 25, 2004 the Company made a contribution in amount of 2,781 to acquire a 24% equity interest in ООО Giprosvyaz-Sibir.

Movement in investments in associates for the years ended December 31, 2004 and 2003 is presented below:

	2004	2003
<b>Investments in associates at January 1</b>	<b>35,035</b>	<b>279,017</b>
Acquisition of associates	18,091	–
Share of income net of income tax and dividends received	6,766	206,479
Effect of consolidation as a result of acquisition of control	(23,153)	–
Sale of investments in associates	(1,004)	(447,378)
Impairment of investments recognized during the year	–	(3,083)
<b>Investments in associates at December 31</b>	<b>35,735</b>	<b>35,035</b>

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 associated company.

OA O “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**9. Other Investments**

As of December 31, 2004 and 2003, the Company’s other investments comprised the following:

	<b>2004</b>	<b>2003</b>
Long-term investments held-to-maturity	30,000	–
Long-term investments available-for-sale	42,360	40,816
<b>Total long-term investments</b>	<b>72,360</b>	<b>40,816</b>
Short-term investments held-to-maturity	161,901	370,649
Short-term investments available-for-sale	–	62,996
<b>Total short-term investments</b>	<b>161,901</b>	<b>433,645</b>
<b>Total investments</b>	<b>234,261</b>	<b>474,461</b>

As of December 31, 2004 long-term investments held-to-maturity included bank deposits in amount of 30,000 with maturity over 1 year.

As of December 31, 2004 short-term investments held-to-maturity included bank deposits with the maturity from 3 months to 1 year in amount of 146,419 (2003 r.- 256,000).

As of December 31, 2004 and 2003 investment available-for-sale comprised the following:

<b>Company</b>	<b>2004</b>		<b>2003</b>	
	<b>Ownership interest</b>	<b>Carrying value</b>	<b>Ownership interest</b>	<b>Carrying value</b>
<b>Long-term investments</b>				
OA O CB Accept	4.31%	21,110	9.40%	21,110
OA O Sibacadembank	0.84%	13,979	2.27%	13,979
ZAO Siberian Cellular Net	10.00%	17,851	10.00%	17,851
OA O SB RF	0.01%	17,253	0.01%	9,697
ZAO RusleasingSvyaz	7.30%	11,613	7.30%	11,613
OA O CB Svyazbank	0.01%	10,239	0.22%	10,239
AKB AltayBusinessBank	5.70%	3,830	0.13%	3,830
OA O CB Kuzbassugolbank	–	–	1.83%	17,180
Other		14,274		16,291
Impairment provision		(67,789)		(80,974)
<b>Short-term investments</b>				
OA O Mobile				
telecommunication systems	–	–	26.00%	62,863
Other	–	–		133
<b>Total investments available-for-sale</b>		<b>42,360</b>		<b>103,812</b>



OAO “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**10. Long-Term Advances Given**

As of December 31, 2004 and 2003 advances to suppliers of equipment comprised the following:

	<b>2004</b>	<b>2003</b>
Acquisition of Oracle E-Business Suite software	–	6,338
Advances for property, plant and equipment	321,510	185,514
Provision	(1,648)	–
<b>Total</b>	<b>319,862</b>	<b>191,852</b>

**11. Inventories**

Inventories at December 31, 2004 and 2003 included the following:

	<b>2004</b>	<b>2003</b>
Cable, materials and spare parts for telecommunications equipment	233,022	201,672
Finished goods and goods for resale	62,348	59,349
Other inventories	313,042	285,150
<b>Total</b>	<b>608,412</b>	<b>546,171</b>

**12. Accounts Receivable**

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

	<b>2004</b>	<b>2003</b>
Trade receivables – telecommunication services	2,621,163	2,261,249
Trade receivables – other	139,898	55,819
Provision for impairment of receivables	(999,265)	(914,310)
<b>Total</b>	<b>1,761,796</b>	<b>1,402,758</b>

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

	<b>2004</b>	<b>2003</b>
Corporate customers	684,702	532,930
Residential customers	988,459	688,686
Governmental customers	948,002	1,039,633
<b>Total</b>	<b>2,621,163</b>	<b>2,261,249</b>

The Company invoices its governmental and corporate customers on a monthly basis. For residential customers, 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 rubles, in effect at the time the calls are made. In certain cases the Company managed to collect penalties for payment delays and to enforce reimbursement in arbitration court.

OA O “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**12. Accounts Receivable (continued)**

Article 47 of the Federal Law “On Telecommunications” No. 126-FZ dated July 7, 2003 will be effective starting from 2005, which changes rules on granting privileges to residential customers with respect to services rendered by telecommunication companies. Starting from January 2005 telecommunication customers with the right to privileges are obliged to pay for telecommunication services in full with the subsequent compensation of their expenses by budget funds of the various levels. The state budget does not provide for financing of the remaining debt of social security organizations to compensate expenses related to granting privileges to certain category of subscribers in the previous periods.

As of December 31, 2004 the debt of social security organizations with regard to the compensation of expenses related to granting privileges to a certain category of subscribers amounted to 29.3% of total accounts receivable (2003 – 34.9%).

In 2004 the Company collected from federal budget accounts receivable of 193,204. In December 2004, based on assessment of probability of judicial recovery of accounts receivable related to compensation due from social security organizations, the Company has accrued provision for impairment of receivables of 737,421 representing 88% of total receivables from social security organizations as of December 31, 2004.

The following summarizes the changes in the provision for impairment of trade and other receivables and advances:

	<b>2004</b>	<b>2003</b>
Balance at January 1	946,003	776,626
Provision for the year	297,092	394,227
Trade and other receivables write-off	(225,678)	(224,850)
<b>Balance at December 31</b>	<b>1,017,417</b>	<b>946,003</b>

**13. Long-Term Accounts Receivable and Other Financial Assets**

As of December 31, 2004 and 2003, long-term accounts receivable and other financial assets included:

	<b>2004</b>	<b>2003</b>
Long-term accounts receivable	96,910	65,958
Long-term loans given	81,811	23,469
<b>Total</b>	<b>178,721</b>	<b>89,427</b>

ОАО “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**14. Other Current Assets**

As of December 31, 2004 and 2003 other current assets comprised the following:

	<b>2004</b>	<b>2003</b>
Prepayments and advance payments	381,210	172,921
Settlements with personnel	42,657	43,731
VAT receivable	1,272,874	648,433
Prepaid income tax	9,808	22,674
Other prepaid taxes	27,970	46,596
Deferred expenses	165,160	212,373
Other receivables and current assets	106,778	100,430
Provision for other current assets	(16,504)	(31,693)
<b>Total</b>	<b>1,989,953</b>	<b>1,215,465</b>

**15. Cash and Cash Equivalents**

As of December 31, 2004 and 2003 cash and cash equivalents comprised the following:

	<b>2004</b>	<b>2003</b>
Cash at bank and on hand	344,647	601,848
Short-term deposits with original maturities of three months or less	90,254	1,061
Other cash equivalents	3,672	4,776
<b>Total</b>	<b>438,573</b>	<b>607,685</b>

Short-term deposits range in maturity from 28 to 62 days, depending on current cash requirements, and generate interest income at the effective rates. The effective interest rate for short-term deposits with maturity of up to three months is 8.54%, average duration of funds deposited is 35 days.

As of December 31, 2004 cash at bank and on hand includes 8 (2003 – 29) denominated in dollars.

**16. Significant Non-Cash Transactions**

In 2004 the Company received telecommunication equipment under leasing agreements in the amount of 165,405 (2003 – 1,390,368).

During 2004 the Company purchased Amdocs Billing Suite for 546,398 and paid by promissory notes with maturity in 2005-2006.

Gross book value of property, plant and equipment, which were received on vendor financing terms in 2004, amounted to 166,890 (2003 – 329,470).

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

OA O “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**17. Share Capital**

As at December 31, 2004 and 2003 the authorized number of ordinary and preference shares are 12,011,402 thousand and 3,908,420 thousand, respectively.

All authorized shares have been issued and fully paid. All shares have a par value of 0.15 Rubles. 75.45% of the share capital issued as of December 31, 2004 was attributable to ordinary shares and 24.55% attributable to preference shares, class A. The difference between the total par value and total carrying value represents the effects of inflation of prior years.

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

The ordinary shareholders are entitled to one vote per share. Class A 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 re-organization 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 Russian accounting net income for the year.

Annual amount of dividends on preference shares class A may not be less than dividends on ordinary shares. As such, the preference shareholders share in earnings along with ordinary shareholders and thus the preference shares are considered participating shares for the purpose of the calculation of earnings per share (Note 30). 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.

In September 2001 the Company executed a depositary agreement with JP Morgan Chase Bank regarding placement of American Depositary Receipts (ADRs), Level 1. In accordance with the depositary agreement, each ADR represents 800 ordinary shares of the Company. As of December 31, 2004, 1,564,069 ADRs represented 1,251,255 thousand deposited ordinary shares, which constituted 10.42% of total ordinary shares issued.

A dividend was declared in 2004 in respect of 2003 to holders of ordinary shares and preference shares of Ruble 0.00858 per ordinary share (2003 Ruble 0.0066 per ordinary share) and Ruble 0.03841 per preference share (2003 –Ruble 0.0119 per preference share).

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Company from net income as shown in the Company's Russian statutory unconsolidated financial statements. The Company had 641,012 and 1,499,609 of statutory net income in 2004 and 2003, respectively.

OA0 "Sibirtelecom"

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**17. Share Capital (continued)**

The Company's shareholding structure as of December 31, 2004 (in thousands of shares) was as follows:

	Number of outstanding Ordinary shares		Number of outstanding Preference shares		Total (thousands)
	(thousands)	%	(thousands)	%	
OA0 Svyazinvest	6,086,602	51	–	–	6,086,602
Other legal entities	5,083,836	42	2,902,273	74	7,986,109
Individuals	840,964	7	1,006,147	26	1,847,111
<b>Total</b>	<b>12,011,402</b>	<b>100</b>	<b>3,908,420</b>	<b>100</b>	<b>15,919,822</b>

**18. Minority Interest**

Movement of minority interest for the years ended December 31, 2004 and 2003 is as follows:

	2004	2003
<b>Minority interest as of January 1</b>	<b>6,721</b>	<b>354,594</b>
Minority interest in subsidiaries acquired	5,761	–
Dividends paid to minority shareholders	(426)	–
Acquisition of minority interests	–	(389,729)
Minority interests in current year income	1,423	41,856
Minority interest in subsidiaries disposed	(2,844)	–
<b>Minority interest as of December 31</b>	<b>10,635</b>	<b>6,721</b>

**19. Borrowings**

As of December 31, 2004 and 2003 short term borrowings comprised the following:

	Average interest rate	2004	2003
<b>Short-term borrowings</b>			
<b>Bank loans</b>			
Bank loans (Rubles)	13.7%	719,087	361,532
Bank loans (US Dollars)	12%	35,305	182,343
Bank loans (Euro)	11%	5,054	4,679
<b>Total bank loans</b>		<b>759,446</b>	<b>548,554</b>
<b>Vendor financing</b>			
Vendor financing (Rubles)		–	2,134
Vendor financing (US Dollars)		–	61,970
Vendor financing (Euro)		–	292
<b>Total vendor financing</b>		<b>–</b>	<b>64,396</b>
<b>Promissory notes</b>			
Promissory notes (Rubles)	11.2%	458,756	23,726
Promissory notes (US Dollars)	4.7%	430,610	–
<b>Total promissory notes</b>		<b>889,366</b>	<b>23,726</b>
<b>Other borrowings (Rubles)</b>	11%	<b>2,208</b>	<b>105</b>
<b>Total short-term borrowings</b>		<b>1,651,020</b>	<b>636,781</b>

OAO “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**19. Borrowings (continued)**

As of December 31, 2004 and 2003 long term borrowings comprised the following:

	Average interest rate	2004	2003
<b>Long-term borrowings</b>			
<b>Bank loans</b>			
Bank loans (Rubles)	13.7%	2,707,649	1,339,549
Bank loans (US Dollars)	7%	534,486	212,067
Bank loans (Euro)	5.6%	320,274	576,374
<b>Total bank loans</b>		<b>3,562,409</b>	<b>2,127,990</b>
<b>Bonds (Rubles)</b>	13.2%	<b>4,053,952</b>	<b>1,631,504</b>
<b>Vendor financing</b>			
Vendor financing (Rubles)		24	57
Vendor financing (US Dollars)	8%	99,279	105,851
Vendor financing (Euro)		–	15,183
<b>Total vendor financing</b>		<b>99,303</b>	<b>121,091</b>
<b>Promissory notes</b>			
Promissory notes (Rubles)		7,635	7,635
Promissory notes (US Dollars)	4.7%	213,582	–
<b>Total promissory notes</b>		<b>221,217</b>	<b>7,635</b>
<b>Borrowings from related parties (OAO Svyazinvest, Note 34)</b>		<b>–</b>	<b>1,287</b>
<b>Other borrowings (Rubles)</b>		<b>34,198</b>	<b>69,198</b>
<b>Less: Current portion of long-term borrowings</b>		<b>(2,542,567)</b>	<b>(1,345,329)</b>
<b>Total long-term borrowings</b>		<b>5,428,512</b>	<b>2,613,376</b>

As of December 31, 2004 short-term borrowings included interest payable in the amount of 369,270 (2003 – 201,260).

As of December 31, 2004 bank loans are guaranteed by the collateral of property, plant and equipment in the amount of 7,783,282 (2003 – 4,671,031).

As of December 31, 2004, long-term borrowings had the following maturity schedule:

Maturity date	Bank loans	Bonds	Vendor financing	Promissory notes	Other	Total
2005	2,233,508	223,952	74,358	–	10,749	2,542,567
2006	822,543	1,530,000	24,921	213,582	9,890	2,600,936
2007	506,358	2,300,000	–	–	7,080	2,813,438
2008	–	–	24	–	6,479	6,503
After 2008	–	–	–	7,635	–	7,635
<b>Total</b>	<b>3,562,409</b>	<b>4,053,952</b>	<b>99,303</b>	<b>221,217</b>	<b>34,198</b>	<b>7,971,079</b>

OA O “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**19. Borrowings (continued)**

The carrying amounts of the Company’s borrowings are denominated in the following currencies:

	<b>2004</b>	<b>2003</b>
Russian Rubles	7,983,509	3,436,727
US dollars	1,313,262	562,231
Euro	325,328	596,528
<b>Total</b>	<b>9,622,099</b>	<b>4,595,486</b>

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 Rubles represent bank loans received to finance working capital. Most of these loans are collateralized with telecommunications equipment.

***Rosbank***

Short-term borrowings from Rosbank primarily represent a credit line in the amount of 300,000 received in August 2004. The agreement terminates in June 2005. The loan accrues interest at 15% per annum and is payable on a monthly basis. As of December 31, 2004, the outstanding amount was 302,656 including interest payable.

***CommerzBank (Eurasia)***

Short-term borrowings from CommerzBank (Eurasia) represent a credit line in the amount of 300,000 received in November 2004. The agreement terminates in November 2005. The loan accrues interest at 9.5% per annum and is payable on a quarterly basis. As of December 31, 2004, the outstanding amount was 301,246 including interest payable.

**Promissory Notes**

In 2004, the Company issued ruble denominated promissory notes in the amount of 458,756 to Vneshtorgbank. The notes are due in 2005.

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 in the amount of 430,610 due in 2005 and 213,582 due in 2006.

**19. Borrowings (continued)**

*Long-term Borrowings*

**Bank loans**

*CommerzBank (Eurasia)*

Long term borrowings from CommerzBank (Eurasia) represent a credit line in the amount of 300,000 received in December 2004. The agreement terminates in June 2006. The loan accrues interest at 9.5 % per annum and is payable on a quarterly basis. As of December 31, 2004, the outstanding amount was 301,246 including interest payable. At December 31, 2004 the Company was not in compliance with a financial covenant stated in the loan agreement, therefore the whole amount of debt was classified as short term part of the long term borrowings.

*Gazprombank*

Long term borrowings from Gazprombank represent a credit line. The agreement terminates in May 2007. The loan accrues interest at 13.5% per annum and is payable on a monthly basis. As of December 31, 2004, the outstanding amount was 420,929 including interest payable. The loan is collateralized with fixed assets valued at 567,807.

Borrowings from Gazprombank represent a credit line in the amount of 300,000. The agreement terminates in December 2005. The loan accrues interest at 13.5% per annum and is payable on a monthly basis. As of December 31, 2004, the outstanding amount was 300,664 including interest payable. The loan is collateralized with fixed assets valued at 353,807.

In June 2004 the Company received another tranche from Gazprombank under the credit line agreement in the amount of 300,000. The agreement terminates in December 2005. The loan accrues interest at 13.5% per annum and is payable on a monthly basis. As of December 31, 2004, the outstanding amount was 300,664 including interest payable. The loan is collateralized with fixed assets valued at 389,147.

**Bonds**

In June 2003, the Company registered the issue of 1,530,000 interest-bearing bonds, series 03, par value of 1,000 Rubles each. Bonds have 6 semi-annual coupons. Coupon interest rate is set at 14.5% per annum. The bonds mature in 1,092 days from the date of issue.

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

In June, 2004, the Company registered the issue of 300,000 interest-bearing bonds issued by its subsidiary ZAO Baykalwestcom, par value of 1,000 Rubles each. Bonds have 6 semi-annual coupons. Coupon interest rate is set at 11.43% per annum. The bonds mature in 1,092 days from the date of issue.



ОАО “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**19. Borrowings (Continued)**

*Long-term Borrowings (continued)*

**Vendor Financing**

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 at December 31, 2004 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.

**20. 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, 2004 and 2003 are as follows:

	2004		2003	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Current portion	659,923	367,086	973,279	536,140
2 to 5 years	1,270,835	877,673	1,833,085	1,140,841
Over 5 years	105	83	–	–
<b>Total minimum lease payments</b>	<b>1,930,863</b>	<b>1,244,842</b>	<b>2,806,364</b>	<b>–</b>
Less amounts representing finance charges	(686,021)	–	(1,129,383)	–
<b>Present value of minimum lease payments</b>	<b>1,244,842</b>	<b>1,244,842</b>	<b>1,676,981</b>	<b>1,676,981</b>

In 2004 and 2003, the Company's primary lessors were RTC-Leasing and Promsvyazleasing. In 2004, the effective interest rate on leasing liabilities ranged from 26% to 34 % per annum (2003 - from 30% to 38%). RTC-Leasing purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment. The Company’s obligations under capital leases to RTC-Leasing as of December 31, 2004 comprised 1,102,624 (2003 – 1,345,278). As of December 31, 2004 finance lease obligations denominated in foreign currency, mainly USD, amounted 101,385 (2003 – 228,294).

ОАО “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**21. Accounts Payable, Accrued Expenses and Advances received**

As of December 31, 2004 and 2003, the Company’s accounts payable and other current liabilities comprised the following:

	<b>2004</b>	<b>2003</b>
Trade accounts payable	366,435	372,809
Accounts payable for capital investments	867,988	596,566
Salaries and wages	714,573	533,098
Advances received from subscribers	533,392	423,381
Other accounts payable	116,617	154,101
<b>Total</b>	<b>2,599,005</b>	<b>2,079,955</b>

1,488 and 8,521 of trade payables are denominated in foreign currency, mainly EURO, as of December 31, 2004 and 2003, respectively.

Other accounts payable include outstanding settlements with suppliers and contractors in relation to services for operating activities, to agents and other.

**22. Taxes Payable**

*Current taxes payable*

As of December 31, 2004 and 2003, the Company had the following current taxes payable:

	<b>2004</b>	<b>2003</b>
Value added tax	681,669	506,115
Income tax	179,099	130,663
Property tax	80,230	50,691
Individual income tax	32,662	36,092
Sales tax	98	23,056
Unified social tax	91,779	72,102
Road tax	69	6,118
Other taxes	21,770	72,987
Current portion of taxes restructured on long-term	329	–
<b>Total</b>	<b>1,087,705</b>	<b>897,824</b>

Included within value added tax payable is 425,485 (2003 - 359,819) of value added tax that is only payable to the tax authorities when the underlying receivable is recovered or written off.

*Long-term taxes payable*

Long-term taxes payable comprise various taxes payable to the Russian Government which were previously past due and which have been restructured to be repaid over a period of up to 10 years following the application of Government Resolution No. 1002 dated September 3, 1999.

## OA O “Sibirtelecom”

### Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

#### **23. Pension Obligations**

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

##### ***Defined contribution pension plans***

For employees of certain branches, the Company provides post-employment benefits, which are classified as defined contribution pension plans. Non-government pension fund Telecom-Soyuz, which is related to the Company, maintains the plan.

##### ***Defined benefit pension plans***

At certain branches employees are covered by defined benefit pension plans. The defined benefit pension plan provides old age retirement pension and disability pension. The plans provide for payment of retirement benefits starting from statutory retirement age, which are 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 past service in the Company at retirement.

The benefits do not vest until and are subject to the employee retiring from the Company not earlier than above-mentioned ages.

Non-government pension fund Telecom-Soyuz maintains the defined benefit pension plan. The Company makes contributions to the pension fund in the amount set forth in the agreement with the pension fund.

The Company also provides several long-term employee benefits such as a death-in-service benefit and lump-sum payments 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 described in Note 3, Summary of Significant Accounting Policies, the Company has not completed an actuarial valuation of obligations under these agreements, and hence does not make a disclosure required under IAS 19 “Employee Benefits”, pertaining to the value of obligations and assets of the plan as of December 31, 2004.

During 2004 the company made 86,876 of contributions under all of its pension plans (2003 – 86,753) that were expensed.

OAO “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**24. Revenues**

<b>By revenue types</b>	<b>2004</b>	<b>2003</b>
Long distance telephone services – domestic	6,828,904	5,729,353
Long distance telephone services – international	982,578	927,036
Local telephone calls	5,282,655	4,232,954
Installation and connection fees	1,534,944	1,217,755
Documentary services	74,101	82,933
Cellular services	4,043,872	2,338,816
Radio and TV broadcasting	344,312	299,449
Data transfer and telematic services	340,539	310,966
New services	894,012	596,457
Rent of telephone channels	160,609	286,041
Revenues from national operators	567,411	413,922
Other telecommunications services	824,999	734,261
Other revenues	723,472	516,914
<b>Total</b>	<b>22,602,408</b>	<b>17,686,857</b>

The Company identifies revenue by the following major customer groups:

<b>Customer groups</b>	<b>2004</b>	<b>2003</b>
Residential customers	13,054,054	9,564,085
Corporate customers	6,825,177	5,820,293
Government customers	1,779,034	1,535,978
Tariff compensation from the state budget	944,143	766,501
<b>Total</b>	<b>22,602,408</b>	<b>17,686,857</b>

**25. General and Administrative expenses**

	<b>2004</b>	<b>2003</b>
Telecommunication regulatory fees	(70,167)	(54,808)
Security and fire protection services	(196,287)	(154,389)
Business travel expenses	(131,846)	(76,258)
Transportation cost	(59,922)	(46,571)
Post services	(32,796)	(20,613)
Education expenses	(44,836)	(32,812)
Rent of premises	(191,394)	(181,865)
Professional services	(70,944)	(78,237)
Advertising expenses	(176,261)	(114,781)
Insurance	(182,509)	(103,773)
Other expenses	(66,505)	(39,663)
<b>Total</b>	<b>(1,223,467)</b>	<b>(903,770)</b>

OAO “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**26. Other Operating Expenses**

	<b>2004</b>	<b>2003</b>
Cost of goods sold	(287,607)	(253,909)
Payments to Non-commercial partnership (Note 34)	(162,200)	(153,949)
Dealers’ fee for new subscribers activation and express payments cards sale	(224,151)	(107,279)
Bank services fee	(62,877)	(57,862)
Charitable contributions	(39,834)	(41,897)
Civil defense	(61,952)	(24,154)
Other expenses	(541,810)	(310,438)
<b>Total</b>	<b>(1,380,431)</b>	<b>(949,488)</b>

Other expenses include expenses related to billing and cash collection from customers, cost of documentary, pay phone and other telecommunication services, maintenancy of auxiliary service units, notarial and legal services agent fees, representation expenses and other operating expenses.

**27. Interest Expense, net**

	<b>2004</b>	<b>2003</b>
Interest income	39,536	19,402
Interest expense	(409,226)	(314,404)
Interest expense accrued on financial leases	(415,514)	(189,786)
<b>Total</b>	<b>(785,204)</b>	<b>(484,788)</b>

**28. Gain From Other Investments, net**

	<b>2004</b>	<b>2003</b>
Gain from sale of share in South-Siberian Cellular Communication	29,224	–
Gain from sale of share in Novosibirsk cellular communication – 450	7,358	–
Gain from sale of share in Omsk cellular communication	3,322	–
Gain from sale of share in Mobile communication systems	62,050	–
Gain from sale of share in Siberian cellular systems	–	283,092
Gain from sale of other investments	4,518	287
Impairment loss of other investments	(8)	(3,442)
<b>Total</b>	<b>106,464</b>	<b>279,937</b>

Fair value gain on available-for-sale investments recognized in the statement of operations in 2004 as a result of sale of these investments amounted to 62,050 (2003 – 0).

OAO “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**29. Income Tax**

The income tax charge for the years ended December 31, 2004 and 2003 comprised the following:

	<b>2004</b>	<b>2003</b>
Current income tax expense	(956,027)	(911,562)
Deferred income tax (expense) benefit	(45,322)	38,637
<b>Total income tax expense</b>	<b>(1,001,349)</b>	<b>(872,925)</b>
Current income tax expense	(924,408)	(911,562)
Additional prior year income tax accrued in current period	(31,619)	–
<b>Total current income tax expense</b>	<b>(956,027)</b>	<b>(911,562)</b>
Deferred income tax (expense) benefit relating to origination of temporary differences	(45,322)	38,637
<b>Total deferred income tax (expense) benefit</b>	<b>(45,322)</b>	<b>38,637</b>
<b>Total income tax for the year</b>	<b>(1,001,349)</b>	<b>(872,925)</b>

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

	<b>2004</b>	<b>2003</b>
<b>Profit before income tax and minority interest</b>	<b>3,030,330</b>	<b>2,832,404</b>
Statutory income tax rate	24%	24%
Theoretical tax charge at statutory income tax rate	(727,279)	(679,777)
<b>Increase (decrease) resulting from the effect of:</b>		
Prior-year income tax adjustments	(31,619)	–
Expenses not deductible for tax purposes	(249,312)	(256,131)
Other permanent differences	6,861	62,983
<b>Total income tax charge for the year at the effective rate of 33% (2003 – 31%)</b>	<b>(1,001,349)</b>	<b>(872,925)</b>

The composition of deferred income tax assets and liabilities as of December 31, 2004 and 2003 was as follows:

	<b>2004</b>	<b>2003</b>
<i>Tax effects of deferred tax assets:</i>		
Accounts payable and accrued expenses	218,698	142,972
Accounts receivable	115,209	116,436
Leasing	29,507	73,218
Other	7,200	12,057
<b>Deferred tax asset, total</b>	<b>370,614</b>	<b>344,683</b>
<i>Tax effects of deferred tax liabilities:</i>		
Property, plant and equipment	(1,907,897)	(1,852,171)
Investment valuation effect	(4,885)	(25,155)
Intangible assets	(166,338)	(143,258)
Other	(2,200)	(5,672)
<b>Deferred income tax liability, total</b>	<b>(2,081,320)</b>	<b>(2,026,256)</b>
<b>Total net deferred income tax liability</b>	<b>(1,710,706)</b>	<b>(1,681,573)</b>

ОАО “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**29. Income Tax (continued)**

The movement in net deferred tax liability for the years ended December 31, 2004 and 2003 is presented below:

	<b>2004</b>	<b>2003</b>
<b>Deferred tax liability, net at January 1</b>	<b>(1,681,573)</b>	<b>(1,703,968)</b>
Deferred tax income (expense)	(45,322)	38,637
Deferred tax income (expense) related to changes in fair value of investments available-for-sale	13,274	(16,242)
Deferred tax liabilities of subsidiaries disposed	2,915	–
<b>Net deferred tax liability at December 31</b>	<b>(1,710,706)</b>	<b>(1,681,573)</b>

**30. Earnings per Share**

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

	<b>2004</b>	<b>2003</b>
Weighted average number of preference shares outstanding (thousands)	3,908,420	3,908,420
Weighted average number of ordinary shares outstanding (thousands)	12,011,402	12,011,402
<b>Weighted average number of ordinary and preference shares outstanding (thousands)</b>	<b>15,919,822</b>	<b>15,919,822</b>
<b>Net profit</b>	<b>2,027,558</b>	<b>1,917,623</b>
<b>Earning per share, (basic/diluted)</b>	<b>0.12736</b>	<b>0.12046</b>

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

**31. Dividends Declared and Proposed for Distribution**

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 Russian statutory accounting regulations. Dividends are accrued in the year they are declared and approved.

Dividends declared and approved during the year:

	<b>2004</b>	<b>2003</b>
Dividends on ordinary shares - 0.0086 Rubles per share (for 2003 – 0.0066 Rubles per share)	103,075	79,289
Dividends on preference shares - 0.0384 Rubles per share (for 2002 – 0.0119 Rubles per share)	150,134	46,512
<b>Total</b>	<b>253,209</b>	<b>125,801</b>

# ОАО “Sibirtelecom”

## Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

### 31. Dividends Declared and Proposed for Distribution (continued)

Dividends proposed by the Board of Directors, but not yet approved by the annual shareholders' meeting (see Note 36 “Subsequent Events”):

	<u>Total for the year</u>
Dividends on ordinary shares, 0.012872 Rubles per share	154,611
Dividends on preference shares, 0.016106 Rubles per share	62,949
<b>Total</b>	<b><u>217,560</u></b>

### 32. 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, legal, and economic reforms.

Management cannot predict what effect changes in fiscal, political or tariff policies may have on the Company's current financial position or its ability to make future investments in property, plant and equipment. The consolidated financial statements do not include any adjustments that might result from these uncertainties. Related effects will be reported in the financial statements as they become known and estimable.

#### *Taxation*

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. 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. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

As at December 31, 2004, management believes that its interpretation of the relevant legislation is appropriate and that it is most likely that the Company's tax, currency and customs positions will be sustained. At the same time, it is just as likely that in certain instances the management of the Company may have assumed the position on interpreting the legislation and assessing the relevant tax liabilities, which could subsequently be challenged by the government fiscal authorities as lacking proper foundation. The Company intends to defend its position on these issues. As at December 31, 2004, the financial statements do not contain adjustments which may become necessary because of these uncertainties and positions assumed by the Company.



## OA O “Sibirtelecom”

### Notes to Consolidated Financial Statement (continued)

*(in thousands rubles)*

#### **32. Contingencies and Operating Risks (continued)**

##### ***Taxation (continued)***

In February 2005 tax authorities raised significant claim against OAO Dalsvyaz, a company of OAO Svyazinvest Group, as a result of tax examination of the company’s operations for the years 2001-2002.

The Company does not expect similar claims since OAO Dalsvyaz disagreed with the claim raised by tax authorities, brought the case before the court to contest tax authorities’ claim, and estimated the probability of winning of the claim as high. Additionally, tax authorities carried out examination in other companies of the OAO Svyazinvest Group for the same periods, and claims raised against them were insignificant.

##### ***Insurance Coverage***

During 2004, 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***

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 condition or future results of operations. In the foreseeable future economic instability in the country may affect the Company’s operations.

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, there are no current legal proceedings or 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 2005 to 2012. The Company has renewed these licenses on a regular basis in the past, and believes that it will be able to renew licenses without additional cost in the normal course of business. Suspension or termination of the Company’s main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Company.

### **32. Contingencies and Operating Risks (continued)**

#### ***Guarantees Issued***

As of December 31, 2004 the Company has guaranteed credit line facilities provided by Sberbank to RTC-Leasing, a lessor of telecommunication equipment. The guarantees amounted to 1,344,082 (2003 – 1,227,981).

### **33. Commitments**

#### ***Capital Investments***

As of December 31, 2004 the Company had commitments of 252,131 for capital investments into modernization and expansion of its network.

### **34. 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, not merely the legal form.

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

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, 2004 are detailed below.

#### ***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. 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 accounted for approximately 36% of trade accounts receivable as of December 31, 2004 (2003 – 45%). Amounts outstanding from government subscribers as of December 31, 2004, amounted to 948,002 (2003 – 1,039,633).

ОАО “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**34. Balances and Transactions with Related Parties (continued)**

***OAO Svyazinvest***

The Company’s parent entity – OAO Svyazinvest - was wholly owned by the Russian Government until July 1997 when the Government sold 25% plus one share of the Charter Capital of OAO 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 OAO Svyazinvest and its subsidiary companies.

The Government’s influence is not confined to its share holdings in OAO 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.

***OAO Rostelecom***

Rostelecom, a majority owned subsidiary of OAO 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 Rostelecom and terminated outside of the Company’s network is stated as interconnection charges. Further, Rostelecom uses the Company’s network to provide incoming long-distance and international traffic to its subscribers. The corresponding revenues are stated as long distance telephone services.

***Sale of goods and services***

During the reporting period the Company rendered services and sold its goods to the following related parties:

<b>Related party</b>	<b>Relationship</b>	<b>Type of sales</b>	<b>Price determination method</b>	<b>2004</b>	<b>2003</b>
OAO Rostelecom	Controlled by OAO Svyazinvest	Telecommunication services	Regulated tariff	813,429	308,586
<b>TOTAL:</b>				<b>813,429</b>	<b>308,586</b>

OAo "Sibirtelecom"

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**34. Balances and Transactions with Related Parties (continued)**

**Purchases**

During the reporting period the following related parties rendered services to the Company:

<b>Related party</b>	<b>Relationship</b>	<b>Type of sales</b>	<b>Price determination method</b>	<b>2004</b>	<b>2003</b>
OAo Rostelecom	Controlled by OAo Svyazinvest	Telecommunication services	Regulated tariff	2,335,408	1,812,452
ZAO Siberian Cellular Systems - 900	Significant influence	Telecommunication services	Arm's length terms	–	24,795
<b>TOTAL:</b>				<b>2,348,612</b>	<b>1,837,247</b>

As of December 31, 2004 balances with related parties comprise the following:

<b>Related party</b>	<b>Relationship</b>	<b>Type of receivable</b>	<b>2004</b>	<b>2003</b>
<b>Accounts receivable:</b>				
OAo Rostelecom	Controlled by OAo Svyazinvest	Telecommunication services	112	–
<b>TOTAL:</b>			<b>112</b>	<b>–</b>

<b>Related party</b>	<b>Relationship</b>	<b>Type of receivable</b>	<b>2004</b>	<b>2003</b>
<b>Accounts payable:</b>				
OAo Rostelecom	Controlled by OAo Svyazinvest	Telecommunication services	158,780	145,995
<b>TOTAL:</b>			<b>158,780</b>	<b>145,995</b>

**Loans issued to the Company:**

	<b>2004</b>	<b>2003</b>
<b>Outstanding at January 1</b>	<b>15,487</b>	<b>15,578</b>
<i>Including</i>		
OOO Private security agency Ekrantelecom	14,200	14,200
OAo Svyazinvest	1,287	1,378
Loans received	–	394
Loans repaid in the reporting period	10,618	485
<i>Including</i>		
OOO Private security agency Ekrantelecom	9,331	–
OAo Svyazinvest	1,287	485
<b>Outstanding at December 31</b>	<b>4,869</b>	<b>15,487</b>
<i>Including</i>		
OOO Private security agency Ekrantelecom	4,869	14,200
OAo Svyazinvest	–	1,287

All loans received are interest-free.

## ОАО “Sibirtelecom”

### Notes to Consolidated Financial Statement (continued)

*(in thousands rubles)*

#### **34. Balances and Transactions with Related Parties (continued)**

##### *Associates*

During the years 2004 and 2003 the Company provided services amounting to 10,588 (2003 – 4,367) to TeleRoss-Novosibirsk, where it owns 50%. These services included telecommunications, rent etc.

During the years 2004 and 2003 the Company provided services amounting to 9,388 (2003 – 2,613) to Novokom, where it owns 50%. These services included telecommunications, rent etc.

The Company also provided services to other associates, including connection to public network, and rent of space for equipment and offices. The total effect of these transactions on the Company's financial position and operations is insignificant.

##### ***Non-Commercial Partnership Center for Research of Problems in Development of Telecommunications***

Non-commercial partnership Center for Research of the Problems in Development of Telecommunications (hereinafter “the Partnership”) is an entity that OAO 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 subsidiaries and associates of OAO Svyazinvest. Payments to the Partnership included in other operating expenses in the accompanying consolidated statement of operations for the year ended December 31, 2004 amounted to 162,200 (2003 – 147,635).

##### ***NPF Telecom-Soyuz***

The Company has a number of pension agreements with Telecom-Soyuz which is a party related to OAO Svyazinvest. Payments to this pension fund in 2004 amounted to 86,876 (2003–86,753).

##### ***Compensation to key management personnel***

Key management personnel comprise members of Management Board and Board of Directors of the Company, totaling 22 and 20 persons as at December 31, 2004 and 2003, respectively. Total compensation to key management personnel included in the statement of operations line “Wages, salaries, other benefits and payroll taxes” amounted to 23,155 and 22,066 for the years ended December 31, 2004 and 2003, respectively.

Compensation to key management personnel consists of contractual salary, performance bonus depending on operating results and payments for non-government pension benefits.

### **35. Financial Instruments**

#### ***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.

Carrying value of monetary assets and liabilities, including cash and cash equivalent, approximate their fair value due to their short-term character and minimal credit risks.

#### ***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 potentially subject Company 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 significance of the client base and regular monitoring procedures over customers' and other debtors' ability to pay debts. Part of accounts receivable is represented by state and other non-commercial organizations. Recovery of this debt is influenced by political and economic factors, however, management believes that as of December 31, 2004 there is no significant risk of loss to the Company beyond the provision already recorded.

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

#### ***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 19, 20 and 21) give rise to foreign exchange exposure.

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

For the period from January 1, 2004 to December 31, 2004 exchange rate of the Russian Ruble to US Dollar increased by approximately 13% and exchange rate of the Russian Ruble to Euro decreased by approximately 14%. Taking into account instability of economic situation in Russia, there is a probability of significant fall in exchange rate of the Russian Ruble in the future. Possible fall in the exchange rate of the Russian Ruble will lead to increase in the amount of the Company's liabilities, as well as will cause difficulties in attraction of funds including for refinancing of existing debt.

OA O “Sibirtelecom”

Notes to Consolidated Financial Statement (continued)

(in thousands rubles)

**35. Financial Instruments (continued)**

***Interest Rate Risk***

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

The following table presents as of December 31, 2004 and 2003 the carrying amount by maturity of the Company’s financial instruments that are exposed to interest rate risk:

	<b>&lt; 1 year</b>	<b>1-5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
<b>As of December 31, 2003:</b>				
<i>Fixed rate</i>				
Short-term obligations	636,781	–	–	636,781
Long-term obligations	944,472	2,541,979	–	3,486,451
Finance lease obligations	536,140	1,140,841	–	1,676,981
<i>Floating rate</i>				
Long-term obligations	400,857	71,397	–	472,254
	<b>&lt; 1 year</b>	<b>1-5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
<b>As of December 31, 2004:</b>				
<i>Fixed rate</i>				
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
<i>Floating rate</i>				
Long-term obligations	458,321	278,183	–	736,504

Interest on financial instruments classified as floating rate is revised at intervals less than one year. 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.

**36. Subsequent Events**

***Bonds***

On February 22, 2005, the Board of Directors approved the issue of 3,000,000 bonds, each with 1,000 Rubles face value. The bonds have 6 semi-annual coupons. The interest rate was set on tender held on the date of issue and amounted to 9.2 %. The bonds mature 1,092 days after the placement. Bonds have been placed in April 2005.

On February 22, 2005, the Board of Directors approved the issue of 2,000,000 bonds, each with 1,000 Rubles face value. The bonds have 10 semi-annual coupons. The bonds mature 1,820 days after the placement. Bonds are going to be placed in 2005.

## OAO “Sibirtelecom”

### Notes to Consolidated Financial Statement (continued)

*(in thousands rubles)*

#### **36. Subsequent Events (continued)**

##### ***Purchase of 11% shares of OAO Svyazintek***

In accordance with the resolution of the extraordinary meeting of Sibirtelecom shareholders held on February 14, 2005, the Company acquired 11% of shares in OAO Svyazintek for 16,500. Records in shareholder registers attesting to the transfer of title to these securities were made on February and March of 2005.

##### ***Business combinations***

On February 28, 2005 the Company acquired 59.7% of ordinary voting shares of OAO Altaysvyaz. OAO Altaysvyaz’ main activity is cellular communication services provision in Altay region.

##### ***Loan agreements with Sberbank RF***

On January, 20, 2005 the Company entered into overdraft loan agreement with Sberbank for amount 200,000. The Company pays interest on loan to the bank at the rate of 8% per annum. The loan is not guaranteed by collateral.

##### ***Loan agreements with Vneshtorgbank***

On January 21, 2005 the Company entered into loan agreement with Vneshtorgbank for amount of 200,000. The loan matures on January 21, 2007. The Company pays interest on loan to the bank at the rate of 12% per annum. The loan is guaranteed by collateral of telecommunications equipment in amount of 226,807.

##### ***Promissory notes agreements with Investment company Capital***

On February 7, 2005 the Company issued promissory notes to Investment company Capital in the amount of 300,000. The maturity date is February 7, 2006. Discount rate is 12% per annum.

##### ***Dividends***

On May 16, 2005 the Board of Directors proposed dividends for 2004 in the amount of 0.016106 Rubles per preference share and 0.012872 Rubles per ordinary share. Total dividends proposed amounted to 62,949 and 154,611 for preference and ordinary shares, respectively. Dividends for the year ended December 31, 2004, are payable during 2005 and will be accrued in the financial statements for the year ended December 31, 2005 (see also Note 30 “Dividends Declared and Proposed for Distribution”).



## ОАО “Sibirtelecom”

### Notes to Consolidated Financial Statement (continued)

*(in thousands rubles)*

#### **36. Subsequent Events (continued)**

##### ***Telecommunication Reform***

In 2005, within the framework of government efforts to restructure the telecommunication industry (liberalization of the telecommunication market) the Company will be providing domestic and international long-distance communication services on the basis of restructured relations with OAO Rostelecom. These relations will be regulated by an agreement to assist in provision of domestic and international long-distance communication services and an agreement on interconnection to telecommunications lines.

Under the assistance agreement, the Company will provide its customers an access to domestic and international long-distance communication services of OAO Rostelecom, keep records and rating of provided services and receive payments for them, and also collect accounts receivable. The Company's revenue under the assistance agreement will be formed by fees paid by OAO Rostelecom.

Under the interconnection agreement, the Company will provide to OAO Rostelecom traffic transmission services (call initiation and completion, traffic transit to/from interconnected operator networks).

The Company expects that the modified interaction framework will result in a decrease in both revenue and expenses, but the profit will remain at the previous level.

##### ***Unified social tax***

The Federal Law No. 70-FZ dated July 20, 2004 amended article 24 of the Tax Code of the Russian Federation. It stipulates reduction of unified social tax rate effective January 1, 2005.

Reduction of the unified social tax rate from 35.6% to 26% will lead to decrease in the amount of unified social tax, decrease in operating expenses, and increase in net profit of the Company.

The Company's management is not able to estimate the effect of the change in the unified social tax rate effective January 1, 2005 on its net profit for 2005.