OAO «Sibirtelecom»

Consolidated
Financial Statements
as of December 31,
2003

*with Independent
Auditors' Report*

Contents

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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, 2003, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as discussed in paragraphs 3 and 5, 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 materia 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 12 "Investments in Subsidiaries", the Company accounted for the purchase of certain subsidiaries based on historical cost of their net assets. The Company did not identify and estimate the fair value of the purchased net assets as required by IAS 22, "Business Combinations". We were not able to quantify the adjustments, if any, required to reflect these acquisitions at fair value in the accompanying financial statements.

4. As described in Note 27 "Pension Plans and Employee Benefits", the Company has not determined and presented its obligations existing under defined benefits plans in accordance with IAS 19, "Employee Benefits". We were not able to quantify the adjustments, if any, to the financial statements. This matter caused us to qualify our audit opinion on the consolidated financial statements for the year ended December 31, 2002.

5. As described in Note 10 “Property, Plant and Equipment”, the Company's accounting records relating to fixed assets are not designed to support their presentation in accordance with IAS 16, “Property, Plant and Equipment”, IAS 29, “Financial Reporting in Hyperinflationary Economies” and IAS 36, “Impairment of Assets”. As such, certain estimates were made by management to present fixed assets in the accompanying financial statements. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the adjustments, if any, which might have been determined to be necessary had additional evidence been available to better analyze the assumptions and estimates made by management. This matter caused us to qualify our audit opinion on the consolidated financial statements for the year ended December 31, 2002.

6. As a result of the matters described in paragraphs 3, 4 and 5, adjustments, if any, could materially affect the following items: (i) property, plant and equipment, equipment contributions, intangible assets and goodwill, assets and liabilities under defined benefit plans, deferred income taxes, and retained earnings as of December 31, 2003 and the corresponding amounts of depreciation and amortization expense, wages, salaries, other benefits and payroll taxes, income tax expense and net income for the year ended December 31, 2003, and (ii) related disclosures.

7. In our opinion, except for the effects on the financial statements of such adjustments, if any, which might have been determined to be necessary for the matters referred to in paragraphs 3, 4 and 5, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO “Sibirtelecom” as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

8. Without further qualifying our opinion, we draw attention to Note 1 “Corporate Information” to the consolidated financial statements which discloses that the current liabilities of OAO “Sibirtelecom” exceeded its current assets by 1,784,331 thousand rubles as of December 31, 2003. Management's plans in regard to this matter are also described in Note 1.

9. As described in Note 1, the Company was the subject of a reorganization that was approved by the shareholders on December 27, 2001. The Company has accounted for the merger based on the principles of uniting of interests as described in IAS 22, “Business Combinations”. In applying this method, the Company has reflected amounts in the financial statements as if the entities had been combined from January 1, 2002, the earliest period presented.

August 16, 2004

ЗАО Ernst + Young Vneshaudit

Consolidated Balance Sheet As of December 31, 2003

(in thousand rubles)

	Note	December 31, 2003	(Restated) December 31, 2002
ASSETS			
Non-currents Assets:			
Property, Plant and Equipment, net	10	**20,740,874**	17,801,038
Intangible Assets and Goodwill, net	11	**1,137,245**	163,436
Investments in Associates	13	**35,035**	279,017
Other Long-term Investments	14	**64,286**	40,850
Other Financial Assets	18	**65,958**	85,460
Advances to Suppliers of Equipment	15	**191,852**	182,981
Total Non-current Assets		**22,235,250**	18,552,782
Current Assets:			
Inventories	16	**548,499**	537,865
Trade Accounts Receivable, net	17	**1,408,058**	964,971
Short-term Investments	14	**433,645**	-
Other Current Assets	19	**1,252,155**	1,121,384
Cash and Cash Equivalents	20	**607,685**	427,977
Total Current Assets		**4,250,042**	3,052,197
TOTAL ASSETS		**26,485,292**	21,604,979
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' Equity:			
Preference Shares	21	**586,263**	586,263
Ordinary Shares	21	**1,801,710**	1,801,710
Inflation Impact on Share Capital		**1,153,158**	1,153,158
Change in Fair Value of Financial Assets Available-for-Sale		**54,746**	-
Retained Earnings and Other Reserves		**11,165,329**	9,511,752
Total Shareholders' Equity		**14,761,206**	13,052,883
Minority Interest	22	**6,721**	296,436
Non-current Liabilities:			
Long-term Loans	23	**2,613,376**	638,627
Obligation under Finance Lease	24	**1,117,977**	290,787
Equipment Contributions		**242,688**	233,225
Deferred Income Tax Liability, net	7	**1,685,898**	1,723,497
Other Non-current Liabilities		**23,053**	-
Total Non-current liabilities		**5,682,992**	2,886,136
Current Liabilities:			
Trade Accounts Payable and Accrued Liabilities	25	**2,079,955**	2,091,756
Payables to OAO «Rostelecom»		**274,063**	299,867
Taxes and Social Obligations	26	**945,603**	705,797
Dividends Payable		**216,502**	151,761
Short-term Loans	23	**636,781**	957,136
Current Portion of Long-term loans	23	**1,345,329**	998,374
Current Portion of Obligation under Finance Lease	24	**536,140**	164,833
Total Current Liabilities		**6,034,373**	5,369,524
Commitments and contingencies	28		
Total Shareholders' Equity and Liabilities		**26,485,292**	21,604,979

Consolidated Statement of Operations
For the year ended December 31, 2003

(in thousand rubles)

	Note	2003	(Restated) 2002
Revenues	4	**17,718,259**	13,995,617
Operating expenses:			
Wages, Salaries, Other Benefits and Payroll Taxes		**(5,913,007)**	(4,925,946)
Depreciation and Amortization		**(1,836,588)**	(1,484,837)
Materials, Repairs, Maintenance and Utilities		**(1,772,850)**	(1,597,669)
Taxes Other than Income Tax		**(292,632)**	(377,587)
Interconnection Charges		**(2,645,205)**	(1,990,712)
Bad Debts (Expense) /Reversal		**(390,798)**	77,503
Loss on Disposal of Property, Plant and Equipment		**(253,451)**	(56,455)
Other Operating Expenses	5	**(1,626,317)**	(1,274,403)
Total Operating Expenses		**(14,730,848)**	(11,630,106)
Operating income		**2,987,411**	2,365,511
Income from Associates		**206,479**	112,401
Interest Expenses, net	6	**(494,588)**	(333,503)
Income (expenses) from Other Investments, net		**279,937**	(21,874)
Other Income (Expenses), net		**(250,975)**	(453,697)
Foreign Exchange Gain (Loss), net		**54,313**	(255,243)
Net Monetary Gain		**-**	391,830
Income before Taxation and Minority Interest		**2,782,577**	1,805,425
Income Tax Expense, net	7	**(857,721)**	(882,004)
Income before Minority Interest		**1,924,856**	923,421
Minority Interest		**(41,856)**	(191,356)
Net Income		**1,883,000**	732,065
Dividends on Preference Shares	9	**(150,134)**	(46,512)
Net Income Attributable to Ordinary Shareholders		**1,732,866**	685,553
Basic and Diluted Earnings per Share (Russian Rubles)	8	**0.144**	0.057

Consolidated Statement of Cash Flows For the year ended December 31, 2003

(in thousand rubles)

	2003	(Restated) 2002
Cash flows from operating activities:		
Income before taxation and minority interest	**2,782,577**	1,805,425
Adjustments to reconcile income to cash generated from operations:		
Foreign currency exchange (gain) loss, net	**(54,313)**	255,243
Net monetary (gain)	**-**	(391,830)
Depreciation and amortization expense	**1,836,588**	1,484,837
Loss on disposal of property, plant and equipment	**253,451**	56,445
(Income) from investments in associates	**(206,479)**	(112,401)
Interest expense, net	**494,588**	333,503
Bad debt provision expense (reversal)	**390,798**	(77,503)
Inventory obsolescence reserve (reversal)	**-**	(8,086)
(Gain) loss from other investments	**(279,937)**	25,215
Operating profit before changes in working capital	**5,217,273**	3,370,848
(Increase) decrease in trade accounts receivable	**(443,087)**	11,168
(Increase) in other current assets	**(130,771)**	(484,632)
(Increase) decrease in inventories	**(10,634)**	(135,627)
Increase in accounts payable and accrued liabilities	**11,801**	611,958
Increase in taxes and payroll related obligations	**239,806**	153,500
Cash flows generated from operations	**4,884,388**	3,527,215
Interest paid	**(499,373)**	(282,669)
Interest received	**17,781**	6,398
Income tax paid	**(703,167)**	(501,831)
Net cash flows provided by operating activities	**3 699,629**	2,749,113
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(3,622,482)**	(2,313,273)
Purchase of intangible assets	**(760,637)**	-
Proceeds from sales of property, plant and equipment	**32,305**	-
(Purchase) of minority interest in subsidiaries	**(675,032)**	-
Proceeds from sales of associates	**717,612**	-
(Purchases) of other financial assets and investments	**(433,645)**	2,724
Dividends received	**10,958**	3,310
Net cash flows used in investing activities	**(4,730,921)**	(2,307,239)
Cash flows from financing activities:		
Proceeds from borrowings	**5,078,888**	2,752,014
Repayment of borrowings	**(4,557,762)**	(2,799,617)
Proceeds from debt securities issued	**1,530,000**	-
Repayment of finance lease obligations	**(360,101)**	(50,869)
Repayment of vendor financing obligations	**(323,553)**	-
Proceeds from other non-current liabilities	**23,053**	-
Dividends paid	**(164,789)**	(136,265)
Net cash flows from (used in) financing activities	**1,225,736**	(234,737)
Monetary effect on cash and cash equivalents	**-**	(55,515)
Effects of exchange rate changes on cash and cash equivalents	**(14,736)**	-
Increase (Decrease) in cash and cash equivalents	**179,708**	151,622
Cash and cash equivalents at the beginning of the year	**427,977**	276,355
Cash and cash equivalents at the end of the year	**607,685**	427,977

Consolidated Statement of Changes in Shareholders' Equity For the year ended December 31, 2003

(in thousand rubles)

	Note	Share Capital		Inflation impact on Share Capital	Retained earnings and other reserves	Change in Fair Value of Financial Assets Available for Sale	Total Shareholders' Equity
		Preferred shares	Ordinary shares				
At December 31, 2001 (Restated)		586,263	1,801,710	1,153,158	9,006,621	-	12,547,752
Net income for the year		-	-	-	732,065	-	732,065
Dividends		-	-	-	(226,934)	-	(226,934)
At December 31, 2002 (Restated)		586,263	1,801,710	1,153,158	9,511,752	-	13,052,883
Net income for the year		-	-	-	1,883,000	-	1,883,000
Change in Fair Value of Financial Assets Available-for-Sale		-	-	-	-	54,746	54,746
Dividends	9	-	-	-	(229,423)	-	(229,423)
At December 31, 2003		586,263	1,801,710	1,153,158	11,165,329	54,746	14,761,206

Notes to Consolidated Financial Statements as of December 31, 2003

(in thousand rubles)

1. Corporate Information

Authorization of Accounts

The consolidated financial statements of OAO «Sibirtelecom» and its subsidiaries (the «Company» or the «Group») for the year ended December 31, 2003 were authorized for issue in accordance with a resolution of the directors on August 16, 2004.

The Company

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

Open joint-stock company Svyazinvest, a federal holding company majority-owned by the Russian Federation, owns 50,67 % of the Company's ordinary shares.

The Company's principal activity is providing local and long-distance and international telephone services, telegraph and data transfer services, rent of channels and radio services in the Siberian Region of the Russian Federation.

The average number of employees in the Company in 2003 was approximately 48 thousand persons (2002 - approximately 50 thousand persons).

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

2002 Reorganization

In 2001 the Company's management started the Company's reorganization by obtaining shareholder approval to merge the following regional enterprises of OAO «Svyazinvest» wherein 9,334,775,329 ordinary and 3,016,219,414 preferred shares of the Company were exchanged for 100% of the outstanding shares of the regional enterprises as follows:

Regional Enterprise	Shares Issued by the Company		Exchange
	Ordinary	Preferred	Ratio
Elektrosvyaz of Krasnoyarsk region	1,501,895,988	500,634,290	149.76
Elektrosvyaz of Kemerovo region	1,558,697,405	519,565,836	433.85
Elektrosvyaz of Irkutsk region	1,438,811,586	479,571,247	18.82
Altaitelecom	1,384,929,513	461,639,999	640.02
Elektricheskayasvyaz of Omsk region	1,147,147,521	382,385,698	9.58
Tomsktelecom	1,310,200,879	436,694,212	34.78
Elektricheskayasvyaz of Khakasiya republic	285,890,540		69.29
Elektrosvyaz of Buryatia republic	325,847,296	108,614,440	1,005.13
Elektrosvyaz of Chita region	312,470,198	104,153,691	98.17
Elektrosvyaz of Altai republic	68,884,403	22,960,001	217.26
Total	**9,334,775,329**	**3,016,219,414**	

The merger was completed and effective on November 30, 2002. Transaction costs related to the merger of 207,444 were expensed in 2002.

While International Financial Reporting Standards do not specify accounting principles to be applied to transactions among entities under common control, the Company has accounted for the merger based on the principles of uniting of interests as described in IAS 22, «Business Combinations». In applying this method, the Company has reflected amounts in the financial statements at their historical carrying amounts as if the entities had been combined from January 1, 2002, the beginning of the earliest period presented. Unless otherwise described, all information presented in these financial statements gives retroactive effective to the reorganization.

Liquidity and financial resources

As of December 31, 2003, the Company's current liabilities exceeded its current assets by 1,784,331 (December 31, 2002 - 2,317,327). As a result, significant uncertainties exist as to the Company's liquidity and future capital resources.

Primarily due to ongoing investments in maintenance and construction programs, the Company requires cash flows from operations, debt and other long-term financing resources, including hard currency borrowings for which no commercially viable hedging instruments are available.

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

Through 2004, the Company anticipates funding from:

1) bond issue;
2) existing cash reserves;
3) cash generated from operations;
4) long- and short-term financing from domestic lending institutions;
5) long-term trade loans; and
6) financial leases.

Management also expects to continue to be able to delay payment for certain operating costs to manage its working capital requirements if necessary.

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 should 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. Summary of Significant Accounting Policies

Basis of Preparation

The Company maintains its accounting records and prepares its statutory accounting reports in Russian Rubles and in accordance with the Regulations on Accounting and Reporting in the Russian Federation. The accompanying consolidated financial statements presented in accordance with International Financial Reporting Standards (IFRS) are based upon the statutory accounting records that are maintained in accordance with the Russian accounting regulations under the historical cost convention. These statutory accounting records have been adjusted and reclassified to present the accompanying consolidated financial statements in accordance with IFRS. IFRS primarily includes standards and interpretations approved by the International Accounting Standards Board (IASB), International Accounting Standards Committee (IASC) and Standing Interpretations Committee (SIC).

Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of 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.

Restatement and Reclassifications

Management of the Company chose to restate the results for the year ended December 31, 2002 for a previously unrecorded adjustment. This adjustment relates to invoices for interconnection services. These amounts had previously been reflected in the period invoiced. The effect of this adjustment, along with adjustment of dividends on preference shares, on previously reported amounts is as follows:

	As previously reported	As restated
Shareholders' equity, January 1, 2002	12,652,910	12,547,752
Net income	740,244	732,065
Shareholders' equity, December 31, 2002	13,212,732	13,052,883
Basic and Diluted Earnings per Share	0.054	0.057

Certain amounts in the Company's consolidated financial statements as of December 31, 2002 and for the year then ended were reclassified to conform to the current year's presentation.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to December 31, 2003 and 2002.

The Company has accounted for the reorganization (see Note 1 Corporate Information) based on the principles of uniting of interest as described in IAS 22, «Business Combinations».

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred from the Company. Minority interest reflects the interests in subsidiaries not held by the Company (see Note 12 Investments in Subsidiaries).

Subsidiaries

A subsidiary is an entity that is controlled by the Company, directly or indirectly, generally through ownership, of more than 50% of the voting share capital of the entity. These consolidated financial statements include the assets and liabilities, and revenues and expenses of the Company and of subsidiary undertakings, on a line-by-line basis.

Where subsidiaries are not controlled throughout the year, consolidated results include the results of those entities for that part of the year during which control existed, except where the Company has applied the uniting of interests method in accordance with IAS 22 «Business Combination». Under the uniting of interests method, the financial statement items of the combining entities for the period in which the combination occurs are included in the consolidated financial statements as if they had been combined from the beginning of the first period presented.

If the Company applies the purchase method to account for the acquisition of subsidiaries in accordance with IAS 22 «Business Combinations», minority interest at the date of acquisition is determined in proportion to minority shareholders' share in the fair value of the assets and liabilities of the subsidiary at that date. The share of minority shareholders is estimated on the basis of the common voting shares and preferred shares owned by shareholders that do not exercise control over the subsidiary.

Balances and transactions between the Company and subsidiaries, as well as any income from inter-company transactions are eliminated. Income (loss) from inter-company transactions is identified and eliminated only in cases where the assets transferred under relevant transactions have not been sold to third parties (i.e. non-Company entities) and are carried in the balance sheet of a Company entity as of the balance sheet date.

Associates

An associate is an entity in which the Company has significant influence, which is usually demonstrated by the Company owning between 20% and 50% of the voting share capital.

Under the equity method, the investments in associates are carried in the Company's balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The income statement reflects the Company's share of the results of operations of the associates.

Unrealized gains and losses arising from transactions with associates are eliminated in proportion to the Company's interest in the associates by adjusting the book value of investments.

Goodwill

For investments in subsidiaries and associates, any excess of the cost of acquisition over the Company's interest in the fair value of the identifiable assets and liabilities of the acquired entity is recognized as goodwill. Goodwill is amortized over its useful life, which cannot exceed 20 years, on a straight-line basis. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortization and any impairment in value.

Goodwill on acquisition of associates is included in the carrying amount of investments in associates.

Upon disposal of investments in a subsidiary or an associate the remaining balance of unamortized goodwill is taken to gains or losses from such disposal.

Accounting for the Effects of Inflation

In 2000 - 2002 the Russian Federation met the definition of a hyperinflationary economy, as defined by International Accounting Standard 29 «Financial Reporting in Hyperinflationary Economies» (IAS 29). The inflation rate based on the Russian consumer price index («CPI»), as calculated by the State Committee on Statistics (Goskomstat), was 15.1% for 2002 (18.6% and 20.2 % for 2001 and 2000, respectively). Although the cumulative inflation index for the three-year period ended in 2002 was less than 100%, it was considered that the remaining criteria set forth by IAS 29 indicated that the Russian Federation continued to experience conditions that meet the definition of a hyperinflationary economy during 2002.

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. In applying IAS 29, the Company used conversion factors derived from the Russian CPI.

Effective from January 1, 2003, international accounting and financial reporting bodies have determined that the Russian Federation no longer meets the criteria of IAS 29, «Financial Reporting in Hyperinflationary Economies». Beginning 2003, the Company ceased applying IAS 29 and only recognized the cumulative impact of inflation indexing through December 31, 2002, on non-monetary elements of the financial statements. Transactions undertaken subsequent to December 31, 2002 are reported at actual, nominal amounts except for those involving non-monetary assets and liabilities acquired to January 1, 2003. Results of operations (including gains and losses on disposal) involving such assets and liabilities are recognized based on the «restated cost», which was calculated by applying through December 31, 2002 the relevant conversion factors to the carrying values of these assets and liabilities.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currency are translated into rubles at official Central Bank of the Russian Federation (CBR) exchange rates at the year-end. Transactions denominated in foreign currencies are reported at the CBR rates of exchange at the date of the transaction. Any gains or losses on assets and liabilities denominated in foreign currencies arising from a change in official exchange rates after the date of transaction are recognized as currency translation gains or losses.

Transactions that are conducted in rubles when the related assets and liabilities are denominated in foreign currencies (or conventional units) are recorded in the Company's consolidated financial statements on the same principles as transactions denominated in foreign currencies.

Property, Plant and Equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of each group of assets as follows:

Buildings and constructions	45-50 years
Switches	10-15 years
Other telecommunications equipment	10 years
Vehicles	5 years
Computers, office and other equipment	5 years
Land	Not depreciated

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

Borrowing costs that are attributable to the acquisition or construction of fixed assets are capitalized as part of the cost of the related asset when it is probable that they will result in future economic benefits to the Company and the costs can be measured reliably. Capitalization of borrowing costs commences with the beginning of activities to prepare the asset for intended use and lasts until the assets are ready for their intended use.

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.

IAS 36, «Impairment of Assets», requires that the recoverable amount of the assets in question not exceed the higher of net selling price and value in use. Net selling price is the amount obtainable from the sale of assets in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life. 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 inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. Renewals and betterments are capitalized. Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

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. 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.

Equipment Contributions

Equipment transferred to the Company free of charge by its customers and other entities outside the privatization process is capitalized at market value at the date of transfer, and a corresponding deferred income is recognized as a liability in the balance sheet and credited to the statement of operations on the same basis as the equipment is depreciated.

Equipment contributions that do not generate any future income for the Company are not recognized.

Grants received from municipal authorities for the purchase of property, plant and equipment are reflected in the balance sheet as deferred income and recognized as income during the useful life of the respective asset in accordance with IAS 20, «Accounting for Government Grants and Disclosure of Government Aid Information».

Intangible Assets

Intangible assets acquired separately from the business are capitalized at cost. Intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if the fair value can be measured reliably, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Research and Development Costs

Research and development costs are expensed as incurred.

Investments

Investments include the following three categories: held-to-maturity investments, investments available-for-sale and investments held for trading.

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments that are classified as held for trading and available-for-sale are measured at fair value. Gains or losses on investments held for trading are recognized in income. Gains or losses on available-for-sale investments are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

Investments that are intended to be held to maturity, are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Inventories

Inventories are priced at the lower of cost or net realizable value. Cost is determined using the specific identification method.

Accounts Receivable

Accounts receivable are stated at face value, less an allowance for doubtful accounts. An estimate of doubtful debts is made when collection of the full amount is no longer probable.

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.

Interest-Bearing Loans and Borrowings

All interest-bearing loans and borrowings are initially recognized at cost of consideration received. After initial recognition, interest-bearing loans and borrowings are subsequently measured at cost plus accrued interest calculated using the effective interest rate method.

Non Interest-Bearing Loans and Borrowings

Non interest-bearing loans and borrowings are carried at their fair market value estimated by discounting future payments to their present value. Weighted average interest rates are used as an approximation to market interest rates.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; settlement of the obligation may require an outflow of resources embodying economic benefits, and the obligation amount can be reliably assessed. 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.

Pensions and Other Post-Employment Benefits

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.

Under collective bargaining agreements, the Company also provides post-employment retirement benefits by using defined contribution plans and defined benefit plans. The majority of the Company's employees are eligible to participate under defined benefit plans upon a number of factors, including years of service, age and compensation.

A defined contribution plan is a post-employment benefit plan under which the Company's liability 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 whereby actuarial and investment risks fall, in essence, on the Company.

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 fair 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 over the shorter of the estimated useful life of the asset or the lease term.

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.

Revenues

Revenues are 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 eleven major categories:

1. Long-distance intercity connection.
2. Long-distance international connection.
3. Local telephone traffic.
4. Installation and connection fees.
5. Telegraph services.
6. Mobile telecommunications services.
7. Radio and TV broadcasting.
8. Data transfer and telematic services.
9. New services (Internet, ISS, ISDN).
10. Rent of channels.
11. Services for national operators.
12. Other communication services.
13. Other services.

Long-distance services (intercity and international)

Revenues from long distance services are based on time used by the caller, the destination of the call and the services utilized. 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.

Monthly subscription fees

Revenues from local telephone traffic within time scheme are based on time used for connection and on the constant component - subscribers' fee. Within the scheme of payments of subscribers' fee the revenue is determined only in amount of fee. The Company recognizes revenues related to the monthly network fees for local services in the month the service is provided to the subscriber.

Installation fees

The Company recognizes installation and connection fees for indefinite contracts with its subscribers as revenues when the installation and connection is complete.

Telegraph services

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

Mobile services

The Company recognizes revenues related to mobile telecommunications services in the period when the services are rendered.

Radio 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 (Internet, ISS, ISDN)

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 channels

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

Services for national operators

Revenue from national service providers includes two different groups.

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

In 2003, the Ministry of the Russian Federation for Antimonopoly Policy and Entrepreneurial Support (MAP) has conducted a reform of the settlements system of multi regional OAO «Svyazinvest» companies with OAO «Rostelecom» for transit of intercity long-distance traffic. Till August 1, 2003 the revenue calculation had been based on the integral settlement rate, multiplied by the total number of minute-distances (transfer of 1 minute of traffic on 50 kilometer intervals of OAO «Rostelecom» network), transferred through the period.

The integral settlement rate has been calculated as the 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 the 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 a new and more transparent inter-operators settlement system for intercity traffic has been introduced. The new system separates (i) 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 calls of its own subscriber reaches its destination, and (ii) payments for the termination of the incoming intercity traffic from other operators in the 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 the sum of linear settlement rate multiplied by the quantity of 50 kilometer intervals between zones using the termination settlement rate for the zone where the call is terminated. Revenue calculation for the transit of intercity traffic from the OAO «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.

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

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

Other telecommunication services

Other telecommunication services mainly include revenues from payphones network, rent of channels, and sales of handsets and accessories.

Other services

Revenues other than telecommunication revenues primarily consist of revenue from production of telecommunication equipment and its technical support, transportation services, maintenance of recreational facilities and other social infrastructure and sale of goods and services provided by non-core units.

Income Tax

Deferred income tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12, «Income Taxes».

IAS 12, «Income Taxes», requires the use of a balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values. The Company's principal temporary differences arise in respect of property, plant and equipment. 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 utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability settled based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities relating to retained earnings of associates are recognized when it is probable that such earnings will be remitted to the Company in the foreseeable future.

Value-Added Tax

Output VAT amounts are payable on an accrual basis based upon invoices issued to subscribers. Input VAT may be offset, subject to certain restrictions, against output VAT. Input VAT that is not offsetable as of the balance sheet date is recognized in the balance sheet on a gross basis.

3. Segment Information

	2003				
	Fixed line services	Wireless services	Eliminations	Other services	Total
REVENUES					
External sales	14,902,054	2,299,295	-	516,910	17,718,259
Inter-segment sales	206,820	12,301	(301,715)	82,594	-
Total Revenues	15,108,874	2,311,596	(301,715)	599,504	17,718,259
FINANCIAL RESULT					
Segment result	3,410,743	1,002,144		80,607	4,493,494
Unallocated corporate expenses					(1,506,083)
Operating income					2,987,411
Income from associates					206,479
Interest expenses, net					(494,588)
Income from other investments					279,937
Other income (expenses), net					(250,975)
Foreign exchange gain (loss), net					54,313
Net monetary gain					-
Income tax expense, net					(875,009)
Minority interest					(41,856)
Net income					1,865,712

2002				
Fixed line services	Wireless services	Eliminations	Other services	Total
11,640,229	1,366,479	-	988,909	13,995,617
70,296	75,834	(146,130)	-	-
11,710,525	1,442,313	(146,130)	988,909	13,995,617
2,552,298	659,028		392,886	3,604,212
				(1,238,701)
				2,365,511
				112,401
				(333,503)
				(21,874)
				(453,697)
				(255,243)
				391,830
				(882,004)
				(191,356)
				732,065

3. Segment Information (continued)

	2003				
	Fixed line services	Mobile telecommunication services	Eliminations	Other services	Total
OTHER INFORMATION					
Segment assets	23,887,770	2,517,477		45,010	26,450,257
Investment in associates					35,035
Consolidated total assets					26,485,292
Segment liabilities	(8,651,030)	(831,697)		(13,574)	(9,496,301)
Unallocated corporate liabilities					(2,221,064)
Consolidated total liabilities					(11,717,365)
Capital expenditure	4,053,663	821,761		24,545	4,899,969
Depreciation and amortization	1,661,167	175,422			1,836,588
Other non-cash expenses except depreciation (bad debts expenses/ reversal)	343,063	29,257		18,477	390,798

2002				
Fixed line services	Wireless services	Eliminations	Other services	Total
19,707,080	1,862,162		(243,280)	21,325,962
				279,017
				21,604,979
(3,155,148)	(356,652)		(251,768)	(3,763,568)
				(4,492,092)
				(8,255,660)
2,729,065	388,978			3,118,043
1,361,539	123,298			1,484,837
(74,517)	1,920		(4,906)	(77,503)

The Company's structure is based on territorial units, which service the corresponding parts of the Company's network. The Company's management considers that the Company operates in one geographical area and the following business segments - fixed line and mobile telecommunication services, as well as other services.

4. Revenues

Revenues by type	2003	2002
Long-distance intercity connection	**5,460,131**	4,823,13
Long-distance international connection	**927,036**	882,192
Local telephone traffic	**4,232,956**	3,249,026
Installation and connection fees	**1,195,115**	909,125
Telegraph services	**219,700**	280,342
Mobile telecommunication services	**2,299,295**	1,366,479
Radio and TV broadcasting	**57,529**	43,583
Data transfer and telematic services	**166,242**	71,084
New services (Internet, ISS, ISDN)	**596,457**	476,467
Rent of channels	**293,998**	177,286
Services to Russian operators	**776,708**	89,780
Other communication services	**976,182**	1,174,427
Other services	**516,910**	452,313
Total Revenues	**17,718,259**	13,995,617

The change to the new scheme of settlements with OAO «Rostelecom» in August 2003 allowed the Company to receive revenue for the termination of traffic on its network depending on the actual amount of traffic in the period leading to an increase in revenue of 308,856. The costs of settlements with OAO «Rostelecom» for the transfer of intercity traffic due to the change of the scheme increased by 317,325.

The Company identifies revenue by the following major customer groups:

Customer groups	2003	2002
Residential customers	**9,564,079**	6,796,657
Corporate customers	**5,851,701**	5,625,890
Government customers	**1,535,978**	1,049,391
Tariff compensation from the state budget	**766,501**	523,679
Total Revenues	**17,718,259**	13,995,617

5. Other Operating Expenses

	2003	2002
General and administrative expenses	**(444,739)**	(362,787)
Cost of goods sold	**(253,909)**	(187,883)
Rent of premises	**(193,718)**	(127,813)
Audit and consulting fees	**(47,530)**	(75,719)
Advertising	**(114,781)**	(64,264)
Insurance	**(103,773)**	(10,016)
Other expenses	**(467,867)**	(445,921)
Total Other Operating Expenses	**(1,626,317)**	(1,274,403)

Other expenses primarily consist of bonuses to members of the board of directors and members of the audit committee, legal services, securities expenses and other.

General and Administrative Expenses

	2003	2002
Payments to Gossvyaznadzor	**(54,808)**	(125,388)
Fire and other security services	**(154,389)**	(90,563)
Business travel and representative expenses	**(76,259)**	(46,396)
Transportation services	**(46,571)**	(36,395)
Post services	**(20,613)**	(27, 569)
Training expenses	**(32,812)**	(20, 831)
Other expenses	**(59,287)**	(15, 645)
Total General and Administrative Expenses	**(444,739)**	(362,787)

6. Interest Expense, net

	2003	2002
Interest income	**17,781**	6,398
Interest expense	**(499,373)**	(283,400)
Interest expense accrued on financial leases	**(197,965)**	(80,644)
Less: capitalized interest	**184,969**	24,143
Total Interest Expense, net	**(494,588)**	(333,503)

7. Income Tax expense, net

The income tax expense, net for the years ended December 31, 2003 and 2002 comprised the following:

	2003	2002
Current income tax (expense)	**(911,562)**	(521,356)
Prior-year income tax adjustments	**-**	-
Carry-forward of tax losses and unused tax credits	**-**	-
Total current income tax (expense)	**(911,562)**	(521,356)
Deferred income tax benefit (charge) relating to origination of temporary differences	**53,841**	(360,648)
Deductible tax losses and tax credits	**-**	-
Write-off/reversal of previous write-offs of deferred tax assets	**-**	-
Total deferred income tax benefit (charge)	**53,841**	(360,648)
Total Income Tax (Expense), net	**(857,721)**	(882,004)

SIBIR TELECOM

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

	2003	2002
Income before taxation and minority interest	**(2,782,577)**	(1,805,425)
Statutory income tax rate	**24%**	24%
Theoretical tax charge at statutory income tax rate	**(667,818)**	(433,302)
(Increase) decrease resulting from the effect of:		
Non-taxable income	**-**	4,987
Expenses not deductible for tax purposes	**(307,314)**	(220,339)
Permanent element of net monetary gain	**-**	(398,844)
Effect of deferred income tax opening balance inflation	**-**	42,960
Other	**117,411**	122,534
Total Income Tax Expense for the year at the effective rate of 31 % (2002 - 49 %)	**(857,721)**	(882,004)

The composition of deferred tax assets and liabilities as of December 31, 2003 and 2002, and their movement in the year ended December 31, 2003 and 2002, were as follows:

	2003	2002
Deferred income tax assets		
Accounts payable	**173,708**	125,639
Accounts receivable	**116,436**	104,732
Other	**12,057**	19,547
Gross deferred income tax assets	**285,915**	**249 918**
Deferred income tax liabilities:		
Property, plant and equipment	**(1,722,501)**	(1,905,903)
Inventories	**-**	19,154
Investments	**(25,155)**	(62,341)
Intangible assets	**(46,743)**	-
Financial leasing liabilities	**(188,029)**	-
Other	**(5,671)**	(24,325)
Gross deferred income tax liabilities	**(1,988,099)**	(1,973,415)
Deferred income tax liabilities, net	**(1,685,898)**	(1,723,497)

The movement in net deferred tax expenses for the year ended December 31, 2003 was as follows:

Deferred income tax liabilities as of December 31, 2002, net	**(1,723,497)**
Deferred income tax benefit (charge)	53,841
Share in deferred income tax of acquired cmpanies	-
Deferred income tax benefit (charge) related to fair value of financial investments changes	(16,242)
Deferred income tax liabilities as of December 31, 2003, net	**(1,685,898)**

8. Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to ordinary shareholders (net income for the period less preferred dividends) by the weighted average number of ordinary shares outstanding during the year.

	2003	2002
Net income attributable to ordinary shareholders (basic and diluted)	**1,732,866**	685,553
Weighted average number of ordinary shares for basic and diluted earnings per share	**12,011,401,829**	12,011,401,829
Earnings per ordinary share, Rubles (basic and diluted)	**0.144**	0.057

The Company has no financial instruments that can be converted into ordinary shares.

9. Dividends Declared and Approved

Declared dividends in 2003 (for the year 2002) were as follows:

Dividends on ordinary shares, 0.0066 rubles per share	79,289
Dividends on preferred shares, 0.0119 rubles per share	46,512
Total Dividends Declared	**125,801**

Approved dividends at the annual shareholder meeting for the year 2003 (Note 32, Subsequent Events) were as follows:

Dividends on ordinary shares, 0.00858 rubles per share	103,075
Dividends on preferred shares, 0.03841 rubles per share	150,134
Total Dividends Approved	**253,209**

Earnings available for dividends are limited to profits determined in accordance with Russian statutory accounting regulations.

10. Property, Plant and Equipment

	Buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Machines and other	Total
Cost					
As of December 31, 2002	22,016,747	22,793,843	1,081,331	4,718,044	50,609,965
Additions	-	-	4,899,969	-	4,899,969
Disposals	(269,211)	(883,860)	(110,566)	(100,673)	(1,364,310)
Transfers	1,358,572	2,346,829	(4,391,840)	686,439	-
As of December 31, 2003	**23,106,108**	**24,256,812**	**1, 478,894**	**5,303,810**	**54,145,624**
Impairment					
As of December 31, 2002	(1,999,614)	(1,888,981)	(35,272)	(140,569)	(4,064,436)
Reversal of provision	18,625	52,949	31,731	1,477	104,782
As of December 31, 2003	**(1,980,989)**	**(1,836,032)**	**(3,541)**	**(139,092)**	**(3,959,654)**
Accumulated depreciation					
As of December 31, 2002	(12,565,194)	(13,000,228)	-	(3,179,069)	(28,744,491)
Charge for the year	(532,547)	(973,844)	-	(219,128)	(1,725,519)
Disposals	282,652	663,380	-	78,882	1,024,914
As of December 31, 2003	**(12,815,089)**	**(13,310,692)**	**-**	**(3,319,315)**	**(29,445,096)**
Net book value as of December 31, 2002	**7,451,939**	**7,904,634**	**1,046,059**	**1,398,406**	**17,801,038**
Net book value as of December 31, 2003	**8,310,030**	**9,110,088**	**1,475,353**	**1,845,403**	**20,740,874**

The net book value of plant and equipment held under finance leases at December 31, 2003 is 1,675,604 (December 31, 2002 - 679,027). Leased assets are pledged as security for the related finance lease obligations (Note 24).

Property, plant and equipment for a total of 136,332 in 2003 were received on supplier credit terms (in 2002 - 177,413).

In 2003, the Company increased construction in progress by the amount of capitalized interest totaling 184,969 (2002 - 24,143) (Note 6).

As of December 31, 2003, property, plant and equipment totalling 4,671,031 (December 31, 2002 - 1,992,780) was pledged as security for the Company's borrowings (Note 23).

The Company's accounting records related to property, plant and equipment are not designed to support their presentation in accordance with IAS 16, «Property, Plant and Equipment», IAS 29, «Financial Reporting in Hyperinflationary Economies» and IAS 36, «Impairment of Assets». As such, certain estimates and assumptions were made by management to present fixed assets in the accompanying consolidated financial statements.

In the future, the Company expects to hire an independent appraiser to assist in reconstruction of the fair value of the Property, Plant and Equipment, in order to make the necessary adjustments, if any, to the Company's books and records, to comply with IFRS.

11. Intangible Assets and Goodwill

	Goodwill	Licenses	Software	Other	Total
Cost					
At December 31, 2002	6,904	905	154,231	114,715	276,755
Additions	344,079	6,756	708,122	25,921	1,084,878
At December 31, 2003	**350,983**	**7,661**	**862,353**	**140,636**	**1,361,633**
Accumulated amortization					
At December 31, 2002	-	(247)	(53,052)	(60,020)	(113,319)
Charge for the year	(56,634)	(2,081)	(37,506)	(14,848)	(111,069)
At December 31, 2003	**(56,634)**	**(2,328)**	**(90,558)**	**(74,868)**	**(224,388)**
Net book value at December 31, 2002	**6,904**	**658**	**101,179**	**54,695**	**163,436**
Net book value at December 31, 2003	**294,349**	**5,333**	**771,795**	**65,768**	**1,137,245**

Intangible assets include the costs incurred by the Company in 2003 for enterprise management system (ERP) based on Oracle E-business Suite software in the total amount of 630,673 (2002 - nil). In accordance with the supply contract, the Company has been provided with non-exclusive licenses for 12,400 users of E-business Suite among other license applications.

The Company will commence amortization of these costs upon substantial completion of implementation that is expected to occur in 2008. Prior to this time, management will periodically assess this intangible asset for impairment.

Goodwill arising on the acquisition of ZAO Baykalwestcom and ZAO Eniseytelecom on March 13, 2003, is amortized on a straight-line basis over the estimated useful life of 5 years.

Licenses and software are amortized on a straight-line basis over their estimated useful lives determined equal to the term of the license or the license agreement for software. Useful lives of other intangible assets are 5-10 years.

12. Investments in Subsidiaries

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

Subsidiary	Main Activity	Voting Shares	
		2003	2002
ZAO Eniseytelecom	Cellular of GSM 900, NMT 450 standard	**100**	51
ZAO Baikalwestcom	Cellular of GSM 900, NMT 450 standard	**100**	51
ZAO Kuzbass Cellular Telephone GSM	Cellular of GSM standard	**100**	100
ZAO Altaiskaya Telecommunication Company	Rendering local telephone services	**100**	100
OOO Private Security Agency «Ekrantelecom	Security activities	**82.5**	82.5
OAO NGTS-PADGE	Paging	**72.7**	72.7
ZAO Region - net	CDMA telecommunication services	**66**	66
ZAO Altaiskaya Investment Company	Re-selling activity	**62.5**	62.5
ZAO South-Siberian Cellular Communication	Cellular of NMT450 standard	**55**	55
OAO Regional Information Nets	Internet	**51**	51

All the above companies are Russian legal entities registered in accordance with Russian legislation.

In March 2003, the Company paid $ 21 million (approximately 675,000 rubles) to acquire the 49 % minority equity interests in ZAO Baikalwestcom and ZAO Eniseytelecom.

Management has assigned the paid acquisition price for the 49 % interest in ZAO Eniseytelecom as follows:

Acquisition price	392,596
Transaction costs	9,205
Total paid	**401,801**
Assigned value of identifiable assets and liabilities:	
Property, plant and equipment (net)	530,024
Intangible assets (net)	87,104
Other non-current assets	43,742
Accounts receivable	17,192
Cash and cash equivalents	7,853
Other current assets	117,540
Current liabilities	(152,704)
Long-term liabilities	(150,983)
Total net assets	**499,768**
Company's share in acquired net assets	49%
Assigned value of acquired share in identifiable net assets	244,886
Goodwill	**156,915**
Amortization of goodwill since the acquisition date to December 31, 2003	(25,193)
Amount of goodwill at December 31, 2003, net	**131, 722**

Management has assigned the paid acquisition price for the 49 % minority interest in ZAO Baikalwestcom as follows:

Acquisition price	266,965
Transaction costs	6,266
Total paid	**273,231**
Assigned value of identifiable assets and liabilities:	
Property, plant and equipment (net)	488,408
Intangible assets (net)	55,994
Other non-current assets	12,496
Accounts receivable	41,216
Cash and cash equivalents	9,275
Other current assets	3,592
Current liabilities	(347,223)
Long-term liabilities	(88,113)
Total net assets	**175,645**
Company's share in acquired net assets	49%
Assigned value of acquired share in identifiable net assets	86,066
Goodwill	**187,165**
Amortization of goodwill since the acquisition date to December 31, 2003	(30,049)
Amount of goodwill at December 31, 2003, net	**157,116**

The Company did not estimate the fair value of the acquired assets and liabilities of ZAO Eniseytelecom and ZAO Baikalwestcom as required by IAS 22 «Business Combinations». For determination of goodwill, management used an assumption that historical value of assets and liabilities equaled fair value.

13. Investments in Associates

As of December 31, 2003 and 2002, investments in associates were the following:

Associate	Activity	As of December 31, 2003		As of December 31, 2002	
		Voting shares, %	Carrying value	Voting shares, %	Carrying value
ZAO ATS-32	Rendering local telephone services	**40%**	**13,176**	40%	12,541
ZAO ATS-41	Rendering local telephone services	**49%**	**7,885**	49%	5,980
ZAO Novokom	Interconnection line rental	**50%**	**5,972**	50%	4,343
OAO AK Mobiltelecom	Internet	**26%**	**3,528**	26%	3,397
ZAO TeleRoss-Novosibirsk	Communication-satellite services	**50%**	**3,079**	50%	1,846
ZAO Siberian Cellular Systems-900	Cellular of GSM 900 standard	**-**	**-**	30%	249,085
Other	-		**4,478**	-	1,825
			38,118		279,017
Impairment of Investments in Associates			**(3,083)**		-
Total Investments in Associates			**35,035**		279,017

In 2003 the Company sold its interest in ZAO Siberian Cellular Systems-900 for 717,612, net of 134,679 of commission expenses. The resulting gain of 431,176 is reflected as a component of income (expenses) from other investments, net in the statement of operations.

Movement in investments in associates in 2003 is presented below:

Balance at December 31, 2002	**279,017**
Disposal of investments	(447,378)
Share in income (losses) net of income tax	206,479
Impairment of investments	(3,083)
Balance at December 31, 2003	**35,035**

The financial year of all associates ends on December 31.

14. Other Investments

As of December 31, 2003 and 2002, other investments are comprised as follows:

	2003	2002
Long-term investments available-for-sale	**64,286**	40,850
Total Other Long-term investments	**64,286**	40,850
Short-term held-to-maturity investments	**370,649**	-
Short-term investments available-for-sale	**62,996**	-
Total Short-term Investments	**433,645**	-
Total Other Investments	**497,931**	40,850

Short-term held-to-maturity investments consist of 256,000 short-term deposits from maturity more than 3 months up to 1 year.

Long-term investments available-for-sale include investments in the following companies:

	2003		2002	
	Share	Current value	Share	Current value
OAO CB Accept	**9,4**	**21,110**	9,4	21,110
ZAO Siberian Cellular Net	**10**	**17,851**	10	17,851
OAO Kuzbassugolbank	**1,83**	**17,180**	1,83	17,180
OAO Sibacadembank	**2,27**	**13,979**	2,27	13,979
ZAO RusleasingSvyaz	**7,3**	**11,613**	7,3	11,613
Multiregional bank of development of communications and information technologies (OAO)	**0,22**	**10,239**	0,22	10,239
AKB AltayBusinessBank	**0,13**	**3,830**	0,13	3,830
Other	**-**	**49,458**	-	25,560
Impairment of long-term investments available-for-sale		**(80,974)**		(80,512)
Total		**64,286**		40,850

15. Advances to Suppliers

As of December 31, 2003 and 2002 advances to suppliers of equipment comprised the following:

	2003	2002
Acquisition of Oracle E Business Suite software	**6,338**	-
Advances for Property, Plant and Equipment	**185,514**	182,981
Total Advances to Suppliers	**191,852**	182,981

16. Inventories

Inventories at December 31, 2003 and 2002 included the following:

	2003	2002
Cable, spares and materials for telecommunications equipment	**327,408**	418,217
Finished products and goods for resale	**46,749**	45,278
Other inventories	**184,491**	91,552
Impairment provision	**(10,149)**	(17,182)
Total Inventories	**548,499**	537,865

17. Trade accounts receivable

Accounts receivable at December 31, 2003 and 2002 comprised the following:

	2003	2002
Trade receivables - telecommunication services	**2,279,743**	1,702,072
Trade receivables - other	**42,625**	36,290
Allowance for doubtful accounts	**(914,310)**	(773,391)
Total	**1,408,058**	964,971

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

	2003	2002
Corporate customers	**588,749**	321,036
Residential customers	**693,986**	619,408
Government customers included tariff compensation	**1,039,633**	797,918
Total	**2,322,368**	1,738,362

18. Other Financial Assets

As of December 31, 2003 and 2002, other financial assets include the following:

	2003	2002
Long-term Trade Accounts Receivable	**-**	54,082
Long-term Loans Given	**65,958**	31,378
Total Other Financial Assets	**65,958**	85,460

As at December 31, 2003 and 2002 long-term loans given are carried at cost.

19. Other Current Assets

As of December 31, 2003 and 2002 other current assets comprised the following:

	2003	2002
Prepayments and advances	**172,920**	171,558
Loans to personnel	**43,731**	19,245
VAT receivables	**643,337**	490,616
Income tax prepayments	**22,674**	126,190
Other taxes prepayments	**46,596**	29,215
Other current assets	**354,591**	287,795
Current assets reserve	**(31,694)**	(3,235)
Total Other Current Assets	**1,252,155**	1,121,384

20. Cash and cash equivalents

As of December 31, 2003 and 2002 cash and cash equivalents comprised the following:

	2003	2002
Cash at bank and in hand	**601,48**	426,777
Short-term deposits	**1,061**	1,039
Cash equivalents	**4,776**	161
Total Cash and Cash Equivalents	**607,685**	427,977

The fair value of the Company's cash and cash equivalents equals its book value.

21. Share capital

	2003		2002	
	Shares	Share Capital	Shares	Share Capital
Preferred shares at par value 0.15 Rubles				
Outstanding shares as of December 31, 2003	**3,908,420,014**	**586,263**	3,908,420,014	586,263
Shares authorized, not issued	**2,980,586**		2,980,586	
Ordinary shares at par value 0.15 Rubles				
Outstanding shares as of December 31, 2003	**12,011,401,829**	**1,801,710**	12,011,401,829	1,801,710
Shares authorized, not issued	**8,924,671**		8,924,671	
Total Share Capital		**2,387,973**		2,387,973

As a result of the reorganization (Note 1), the state registration of amendments to the charter documents was completed on November 30, 2002.

The share capital account represents the authorized capital of the Company as stated in the charter documents. The Company had 12,011,401,829 ordinary shares and 3,908,420,014 Class A preferred shares as of December 31, 2003.

All shares have a par value of 0.15 Rubles per share. Of the share capital issued as of December 31, 2003, 75,45 % was attributable to ordinary shares, and 24,55 % attributable to Class A preferred shares. The ordinary shareholders are allowed one vote per share. Class A preferred shares are non-voting. All ordinary shares and Class A preferred shares are eligible for distribution of ruble earnings available in accordance with Russian statutory accounting regulations. Each Class A preferred share is entitled to a minimum annual dividend in the amount 10 % of statutory net income available for dividends. Dividends on Class A preferred shares may not be less than dividends on ordinary shares. Shareholders of Class A preferred shares have a preferential right to recover the par value of preferred shares in liquidation.

In September 2001, the Company concluded a Depositary Agreement with JP Morgan Chase Bank in respect of American Depositary Receipts (ADRs), Level 1. In accordance with the depositary agreement each ADR is equal to 800 ordinary shares of the Company. As at the end of December 31, 2003, ADRs represented 604,353,200 deposited ordinary shares, which constituted 5,03 % of total ordinary shares issued.

The Company's shareholding structure as of December 31, 2003 (in thousand shares) is as follows:

	Ordinary shares		Preferred shares		Total
OAO Svyazinvest	6,086,602	51	-	-	6,086,602
Other legal entities	4,882,534	40	2,781,045	71	7,663,579
Individuals	1,042,266	9	1,127,375	29	2,169,641
Total	**12,011,402**	**100**	**3,908,420**	**100**	**15,919,822**

22. Minority interest

As of December 31, 2002	**(296,436)**
Minority interest in net assets of acquired subsidiaries	331,571
Minority interest in net income of subsidiaries	(41,856)
As of December 31, 2003	**(6,721)**

23. Loans

As of December 31, 2003 and 2002 Short-term Loans consisted of the following:

	Effective interest rate	Maturity	2003	2002
Bank loans:				
Bank loans (Russian Rubles)	12%-18%	2004	**361,532**	734,948
Bank loans (US $)	10%-14%	2004	**182,343**	66,764
Bank loans (Euro)	25%	2004	**4,679**	44,071
Total Bank Loans			**548,554**	845,783
Vendor financing:				
Vendor financing (Russian Rubles)	0%	2004	**2,134**	-
Vendor financing (US $)	1.5%	2004	**61,970**	68,996
Vendor financing (Euro)	6.8%	2004	**292**	12,809
Total Vendor Financing			**64,396**	81,805
Promissory Notes (Russian Rubles)		**2004**	**23,726**	18,729
Other Loans (Russian Rubles)		**2004**	**105**	10,819
Total Short-term Loans			**636,781**	957,136

As of December 31, 2003 and 2002 Long-term Loans consisted of the following:

	Effective interest rate	Maturity	2003	2002
Bank loans:				
Bank loans (Russian Rubles)	14 %-15 %	2005-2007	**1,339,549**	306,397
Bank loans (US $)	7 %	2005-2007	**212,067**	426,543
Bank loans (Euro)	5 %-7 %	2005-2007	**576,374**	503,489
Total Bank loans			**2,127,990**	1,236,429
Bonds (Russian Rubles)	**14.5 %**	**2006**	**1,631,504**	-
Vendor financing:				
Vendor financing (Russian Rubles)	0 %	2005	**57**	32
Vendor financing (US $)	5 %-7 %	2005	**105,851**	232,763
Vendor financing (Euro)	0 %	2005	**15,183**	58,108
Total Vendor Financing			**121,091**	290,903
Promissory Notes (Russian Rubles)	**0 %**	**2008**	**7,635**	7,635
Related party loans (OAO Svyazinvest, Note 30)	0 %	2004	**1,287**	1,378
Other Loans (Russian Rubles)	0 %	2005-2008	**69,198**	100,656
Less: Current portion of Long-term Loans	0 %	2004	**(1,345,329)**	(998,374)
Total Long-term Loans			**2,613,376**	638,627

As of December 31, 2003 loans include interest payable in the amount of 201,260 (December 31, 2002 - 63,816).

As of December 31, 2003, long-term borrowings had the following maturity schedule:

	Bank Loans	Bonds	Vendor Financing	Promissory Notes	Related party	Other	Total
Overdue	245,273	-	-	-	-	-	245,273
2004 г.	863,463	101,504	101,183	-	1,287	33,619	1,100,056
2005 г.	597,453	-	20,908	-	-	4,214	622,575
2006 г.	390,004	1,530,000	-	-	-	8,542	1,928,546
2007 г.	31,797	-	-	-	-	155	31,952
2008 г. and thereafter	-	-	-	7,635	-	22,668	30,303
Total	**2,127,990**	**1,631,504**	**121,091**	**7,635**	**1,287**	**69,198**	**3,958,705**

Short-term Loans

Bank Loans

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

Moskovsky Delovoy Mir (MDM)

Short-term borrowings from MDM bank primarily represent a rubles credit line in the amount of 42,500 received in June 2003. The agreement terminates in June 2004. The loan accrues interest at 15 % per annum and is payable on a monthly basis. As of December 31, 2003, the outstanding amount was 42,552 including interest payable. The loan is collateralized with fixed assets valued at 52,056.

Promsviazbank

In July 2003, the Company entered into several agreements with Promsvyazbank with the total amount of 28,000 outstanding as of December 31, 2003. Some of the loans accrue interest at 14 % per annum. Maturity is July-August 2004. The loans are collateralized with fixed assets valued at 46,317.

Guta-Bank

Short-term borrowings from Guta-Bank primarily represent a credit line in the amount of 6 million USD received in December 2003. The agreement terminates in July 2004. The loan accrues interest at 11 % per annum and is payable on a monthly basis. As of December 31, 2003, the outstanding amount was 176,727. The loan is collateralized with fixed assets valued at 162,122.

Vendor Financing

Alkatel

In 1996, 2001 and 2002 the Company entered into several agreements with Alkatel under which Alcatel delivered and installed telecommunication equipment. The related liability is denominated in Euro. Part of these loans bear interest at 6.6 % per annum. The amount of non-interest bearing loans as at December 31, 2003 represent the present value of future payments under the agreements. Interest is accrued at a weighted average interest rate on the Company's interest bearing borrowings obtained in appropriate periods and denominated in Euro which is approximately 12 % per annum.

SibirtelecomService

In August 2002, the Company entered into agreements with SibirtelecomService in the total amount of 132 thousand USD. The agreement is non-interest bearing. The liability as of December 31, 2003 is the present value of the future payments.

Long-term Loans

Bank Loans

Sberbank

Long-term loans from Sberbank mostly represent a ruble credit line in the amount of 382,700 received in August 2003. The agreement terminates on July 2006. The loan under the agreement accrues interest monthly at 14 % per annum. As of December 31, 2003, the outstanding amount was 318,664. The loan is collateralized with fixed assets valued at 436,444.

In August 2002 the Company was granted another Sberbank credit line in the amount of 7,710 thousands Euro with a portion of credit in Rubles with exchange rate per CB Russia on the date of credit. The amount was equal to 238,627. The maturity date is July 2004. The interest rate is 15 % per annum. The loan is secured by equipment in the total amount of 303,000. As on the year end the principal amount is equal to 104,889.

Vnesheconombank

In 1995-1996, the Russian Ministry of Finance (hereinafter, «Minfin») provided long-term financing to the Company to purchase telecommunications equipment from various foreign vendors. Vnesheconombank acted as the Company's lending agent on behalf of Minfin. Initially the agreement was denominated in Deutschmark (DM). After transition to Euro, the loan was converted to Euro. The interest under this agreement is accrued at floating rate Plafond C, which in 2003 approximated 5.75-6.50 %, plus 2 % per annum. The loan is not collateralized.

Alfa Bank

Long-term borrowings from Alfa Bank primarily represent the loan in the amount of 4.6 million USD received in March 2002. The agreement terminates in February 2006. The loan under the agreement accrues interest payable at 7 % per annum. As of December 31, 2003, the outstanding amount was 98,988, including a current portion equal to 45,748. The loan is collateralized with fixed assets valued at 142 million rubles.

Gazprombank

Long-term borrowings from Gazprombank primarily represent the loan in the amount of 550,000, obtained in December 2003. The maturity date is April 2005. The interest rate is 14.1 % per annum. The loan is secured by equipment in the total amount of 243 million rubles. As of December 31, 2003 the principal amount is equal to 90,209.

In June 2003 the Company entered into an agreement with Gazprombank for 350,000. The maturity date is June 2004. The interest rate is 15 % per annum. The loan is secured by equipment in the total amount of 425 million rubles. As of December 31, 2003 the principal amount is equal to 350,863.

Guta-Bank

Long-term borrowings from Guta-Bank primarily represent a loan in the amount of 230,000, obtained in October 2003. The maturity date is October 2006. The interest rate is 15 % per annum. The loan is secured by telecommunication equipment in the total amount of 266 million rubles. As of December 31, 2003 the liability amount is equal to 230,000.

KBC Bank

On June 28, 2001 the Company received a loan from KBC Bank in the amount of 4.7 million Euros. During 2003 the annual interest rate on this loan was 5.54 %. The loan maturity date is February 15, 2007. Interest is accrued and paid semi-annually. As of December 31, 2003 the Company's outstanding balance on this loan was 142,064.

Brussels Lambert Bank H.B.

On September 18, 1998 the Company received a loan from Brussels Lambert Bank H.B. (BBL) in the amount of 5.8 million Euros to finance the purchase of equipment. The annual interest rate on this loan was 5.94 %. The loan maturity date is October 29, 2004. Interest is accrued and paid semi-annually. As of December 31, 2002 the Company's outstanding balance on this loan was 43,319.

Bonds

On June 27, 2003, the Company registered the issue of interest-bearing bearer's bonds, series C, par value of 1 thousand Rubles. Bonds have 6 coupons. Payments against the first coupon are made on the 182nd day from the date of issue; interest per other coupons are payable every subsequent 182nd day. The coupon interest rate for six coupons is determined at 14.5 % per annum. The bonds mature in 1,092 days from the date of issue in July 2006.

Vendor Financing

Eriksson Nikola Tesla

In 1998 and 2001 the Company entered into several agreements with Ericsson Nikola Tesla, under which Ericsson Nikola Tesla delivered telecommunication equipment to the Company. The amounts payable under these agreements are denominated in USD. The agreements do not provide for interest payments thus the amount of liability as at December 31, 2003 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.

24. Obligations under Finance Lease

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, 2003 and 2002 are as follows:

	2003		2002	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Current portion	**973,279**	**536,140**	274,060	164,833
2 to 5 years	**1,833,085**	**1,117,977**	413,856	290,787
Total minimum lease payments	**2,806,364**		687,916	
Less amounts representing finance charges	**(1,152,247)**		(232,296)	
Present value of minimum lease payments	**1,654,117**	**1,654,117**	455,620	455,620

In 2003 and 2002, the Company's primary lessors were OAO «RTC-Leasing» and OOO «Promsvyazleasing». The effective interest rate on these liabilities ranged from 23 % to 38 % per annum in 2003 (2002 - from 24 % to 41 %).

OAO «RTC-Leasing» purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment. The Company's obligations under capital leases to OAO «RTC-Leasing» as at December 31, 2003 comprised 1,345,278 (2002 - 193,235), which consists of 1,255,653 of principal amount (2002 - 190,681) and accrued interest of 89,625 (2002 - 2,554).

Pursuant to agreements concluded with OAO «RTC-Leasing», the lessor is entitled to adjust the lease payment schedule in the event of certain changes in the economic environment, in particular, change in the refinancing rate of the Central Bank of Russian Federation.

25. Trade Accounts Payable and Accrued Liabilities

The Company's trade accounts payable and accrued liabilities as of December 2003 and 2002 comprised the following:

	2003	2002
Trade accounts payable	**68,845**	91,736
Advances received from subscribers	**414,832**	371,167
Accounts payable for capital investments	**451,146**	601,574
Salaries and wages payable	**533,098**	318,045
Other trade accounts payable and accrued liabilities	**612,034**	709,234
Total Trade Accounts Payable and Accrued Liabilities	**2,079,955**	2,091,756

26. Taxes and Social Obligations

As of December 31, 2003 and 2002, the Company had the following taxes and social obligations outstanding:

	2003	2002
Value-added tax	**542,803**	367,484
Income tax	**141,754**	36,875
Property tax	**50,691**	35,473
Personal income tax	**36,092**	32,644
Sales tax	**23,056**	34,317
Unified social tax	**71,708**	76,592
Road users tax	**6,118**	40,704
Other taxes	**73,381**	81,708
Total Taxes and Social Obligations	**945,603**	705,797

27. Pension Plans and Employee Benefits

In addition to statutory pension benefits, the Company also contributes to defined benefit plans which cover most of its employees. Non-government pension fund Telecom-Soyuz, which is related to the Company, maintains the plan. The plans provide for payment of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men. The benefits are based on a formula recognizing minimal statutory pension, length of service both in the Company and in the telecommunications industry, as well as final average earnings and position in the

Company at retirement. The benefits are not vesting and are subject to the employee retiring from the Company on or after the above-mentioned ages. The Company makes contributions to the pension funds as a set percentage of the employees' salaries or in the amount set forth in the agreement with the pension fund subject to a specific pension arrangement.

As described in Note 2, the Company has not made an actuarial determination of current debt under these agreements, and hence has not recorded its obligation or made disclosures required under IAS 19, «Employee Benefits», pertaining to the value of obligations and assets of the plan as of December 31, 2003.

28. Commitments and Contingencies

General Contingencies

The Russian economy while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Management cannot predict what effect changes in fiscal, political or tariffing 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.

Tax Laws and Regulations

Legislation and regulations regarding taxation and foreign currency transactions in Russia continue to evolve as the government manages the transformation from a command to a market-oriented economy.

During 2002, the Russian Federation enacted a new tax code with significant modifications from the prior law.

The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities, the Central Bank and Ministry of Finance. Instances of inconsistent opinions are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Russia's laws, decrees and related regulations are severe. Interest (at the Central Bank of RF official rates) and fines are levied when an understatement of tax liability is discovered. As a result, penalties and interest can result in amounts that are multiples of any unreported taxes.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes was unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to accrue for contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. No such accruals have been made as at December 31, 2003.

Because of the uncertainties associated with the Russian tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as at December 31, 2003.

Insurance Coverage

The Russian insurance industry is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. During 2003, the Company did not maintain insurance coverage on a significant part of its property, plant and equipment asset bases, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operation and financial position.

Litigation, claims and assessments

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

Management is unable to estimate what developments may occur in respect of the Russian legal system or the resulting effect of any such developments on the Company's financial condition or future results of operations. The financial statements do not include any adjustment that may result from these uncertainties.

Telecommunication Reforms

On January 1, 2004, a new law on telecommunications came into effect in Russia. The law sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. The new law may increase the degree of regulators' oversight over the Company's operations and until such time as appropriate regulations consistent with the new law are promulgated, there will be a period of confusion and ambiguity as regulators interpret the legislation.

Under the new law, the Company is obliged to provide services under similar circumstances and equal conditions for connecting telecommunications networks and for carrying traffic from communications operators rendering similar services and to render connection services and the services involved in carrying traffic to these operators under the same terms and of the same standard, like for its own structural subdivisions and for affiliated parties.

According to the new telecommunication law, the individual subscriber has an option for local service to be paid based on subscription or by-the-minute payment system.

Management cannot predict with any certainty to what degree (if at all) the new law will affect the Company.

29. Unexecuted contractual commitments

Finance lease

In 2003 the Company entered into 7 finance leases with OAO «RTC-Leasing». The equipment under these leases will be delivered in 2004. The cost of equipment acquired through these leases, inclusive of installation and other capitalized services, approximated 111,447.

Capital commitments

At December 31, 2003 the Company has commitments of 557,834 for capital investments into modernization and expansion of its network (as of December 31, 2002 - 17,452).

30. Related Parties

OAO Svyazinvest

The Company regards OAO «Svyazinvest» as its 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 Svyazinvest and its subsidiary companies.

The Government's influence is not confined to its share holdings in Svyazinvest. It has general authority to regulate tariffs and does regulate domestic long distance tariffs to a limited extent. In addition, the Ministry of Communications and Informatization of the Russian Federation has control over the licensing of providers of telecommunications services.

As at December 31, 2003 and 2002 the Company had loans payable to OAO «Svyazinvest» outstanding (Note 23).

OAO Rostelecom

OAO «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 OAO «Rostelecom» and terminated outside of the Company's network is stated as interconnection charges. Further, OAO «Rostelecom» uses the Company's network to provide incoming long-distance and international traffic to its subscribers and partner operators. Transactions undertaken by the Company with OAO «Rostelecom» are reported in the accompanying consolidated financial statements as at December 31, 2003 and 2002 and for the years then ended as follows:

	2003	2002
Expenses on traffic transfer and rent of channels from Rostelecom	**1,925,042**	1,444,161
Revenue received from Rostelecom	**362,628**	42,931
Accounts payable to Rostelecom as at the year-end	**274,063**	299,867

OAO RTC-Leasing

OAO «RTC-Leasing» purchases telecommunications equipment from Russian and foreign vendors and leases the equipment.

In October 2003, OAO «Rostelecom» which owned 27 % of the ordinary shares of OAO «RTC Leasing» and exercised financial and operational control over the Company's activities, sold all shares of OAO «RTC-Leasing» to a third party. As a result of this transaction, starting from December 1, 2003 OAO «RTC-Leasing» is not considered to be the Company's related party and is not included into the Group of companies owned by OAO «Svyazinvest».

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 Ministry of Antimonopoly Policies and Entrepreneurship Support 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 45 % of trade accounts receivable as of December 31, 2003 (2002 - 46 %). Amounts outstanding from government subscribers as of December 31, 2003, amounted to 1,039,633 (2002 - 797,918).

Associates

During 2003 and 2002 the Company provided services amounting to 4,637 to ZAO «TeleRoss-Novosibirsk» (2002 - nil), where it owns 50 %. These services included telecommunications, rent, etc.

During 2003 and 2002 the Company provided services amounting to 2,732 to ZAO «Mobiltelecom» (2002 - nil), where it owns 26 %. These services included telecommunications, rent, etc.

During 2003 and 2002 the Company provided services amounting to 2,613 to ZAO «Novokom» (2002 - nil), 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 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 related to OAO «Svyazinvest». The Company has an agreement with the Partnership, under which it provides financing for mutually beneficial projects undertaken by the Partnership 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, 2003 amounted to 147,635 (2002 - 122,224).

NPF «Telecom-Soyuz»

The Company has concluded several pension plans agreements with NPF «Telecom-Soyuz» which is a related party of OAO «Svyazinvest» (see Note 27). Payments to this pension fund in 2003 amounted to 100,292 (2002 - 72,526).

Compensation of the Company's management

The Company's Board of Directors included the following persons during the year:

Chairman of board of directors:

– Lopatin A.V., Chairman of board of directors ZAO «Mobilnye telecommunications»

BOD members:

– Baikalov V.P., Rector of Siberian State University of telecommunications and infomatics, professor

– Bobin M.V., head of legal department in Moscow division of NCH Advisors, Inc. (USA)

– Ermolich A.A., deputy of head of representatives department of corporate management OAO «Svyazinvest»

– Zabuzova E.V., director of economic, planning and budgeting department of OAO «Svyazinvest»

– Nikulin A.I., General director of OAO «Sibirtelecom»

– Osadchaya M.N., head of marketing sector in Marketing and sales departments OAO «Svyazinvest»

– Popov V.F., deputy general director OAO «Sibirtelecom», director of RF «Tomsktelecom»

– Repin I.N., expert of Non-commercial company «Association of protection of Investors' rights», Moscow

– Romsky G.A., deputy general director OAO «Svyazinvest»

– Yurchenko E.V., deputy general director OAO «Svyazinvest».

In 2003, compensation to the members of the Board totaled 17,570 (2002 - 7,608).

31. Financial Instruments

Fair value

The management believes that the value at which the financial instruments are carried in the accompanying consolidated balance sheet as of December 31, 2003 and 2002, approximates their fair value.

Interest rate risk

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

Year ended December 31, 2002:

	< 1 year	1-5 years	> 5 years	Total
Fixed rate				
Short-term loans	957,136	-	-	957,136
Long-term loans	837,216	499,059	-	1,336,275
Obligation under finance lease	164,833	290,787	-	455,620
Floating rate				
Long-term loans	161,158	139,568	-	300,726

Year ended December 31, 2003:

	< 1 year	1-5 years	> 5 years	Total
Fixed rate				
Short-term borrowings	**636,781**	**-**	**-**	**636,781**
Long-term borrowings	**944,472**	**2,541,979**	**-**	**3,486,451**
Finance lease obligations	**536,140**	**1,117,977**	**-**	**1,654,117**
Floating rate				
Long-term borrowings	**400,857**	**71,397**	**-**	**472,254**

Interest on financial instruments classified as floating rate is repriced 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.

32. Subsequent events

Bonds

On December 26, 2003, the Board of Directors approved the issue of 2 million bearer bonds, each with 1 thousand Rubles face value. The bonds have 6 coupons. Interest payments per each coupon are scheduled for every 182nd day from the first day of the placement. The Board of

Directors approved the issue date as July 8, 2004. The interest rate was set on tender held on the date of issue and amounted to 12.5 %. The bonds mature 1,092 days after the placement.

On March 18, 2004, the Board of Directors approved the issue of 300 thousand bearer bonds, each with 1 thousand Rubles face value. The bonds have 6 coupons. Interest payments per each coupon are scheduled for every 182nd day from the first day of the placement. The Board of Directors approved the issue date as June 10, 2004. The interest rate was set on tender held on the date of issue and amounted to 11.43 %. The bonds mature 1,092 days after the placement.

Purchase of shares in OAO «AK Mobiltelecom» (25 % of shares)

According to an extraordinary shareholders meeting of the Company on November 26, 2003, the Company agreed to purchase 25 % of OAO «AK Mobiltelecom» for 3,149. Registration of title transfer was made as at June 30, 2004. The Company's total equity share after the purchase is 51 %.

Sale of 50 % of shares in ZAO «Novosibirsk Cellular Communication-450»

According to a decision of the Board of Directors of the Company held on January 16, 2004, the Company sold 50 % of ZAO «Novosibirsk Cellular Communication-450» for 7,270. Registration of title transfer was made on April 26, 2004.

Sale of 30 % of shares in ZAO «Gorno-Altayskaya Cellular Communication»

According to a decision of the Board of Directors of the Company held on January 16, 2004, the Company sold 30 % of ZAO «Gorno-Altayskaya Cellular Sviaz» for 86. Registration of title transfer was made on April 28, 2004.

Sale of 55 % of shares in ZAO «Southern-Siberian Cellular Communication»

According to a decision of the Board of Directors of the Company held on January 16, 2004, the Company sold 55% of ZAO «Southern-Siberian Cellular Communication» for 9,388. Registration of title transfer was made on April 28, 2004.

Sale of 29 % of shares in ZAO Omsk Cellular Communication.

According to a decision of the Board of Directors of the Company held on January 16, 2004, the Company sold 29 % of ZAO «Omsk Cellular Communication» for 3,292. Registration of title transfer was made on April 30, 2004.

Loan agreements

Alfa Bank

In January 2004, the Company entered into a 25,000 loan agreement with Alfa-Bank. The loan matures in January 2005. The Company pays interest on the loan to the bank at the rate of 14 % per annum. The loan is not collateralized.

ZAO Gazprombank

In January 2004, the Company obtained 330,000 under agreement with ZAO Gazprombank dated December 23, 2003 for payment for construction of automatic phone station in Kiselevsk.

On June 22, 2004, the Company entered into a loan agreement with ZAO Gazprombank for 300,000. The loan matures on December 10, 2005. The Company pays interest on the loan to the bank at the rate of 13.5 % per annum. The loan is collateralized with telecommunications equipment with a value of 389,147.

Sberbank

On April 13, 2004, the Company entered into a loan agreement with Sberbank (Chitinsky OSB № 8600) for 50,000. The loan matures on October 10, 2005. The Company pays interest on the loan at the rate of 12 % per annum. The loan is collateralized with telecommunications equipment with value of 57,701.

On April 29, 2004, the Company entered into a loan agreement with Sberbank (Sibirsky OSB) for 79,000. The loan matures on October 28, 2005. The Company pays interest on the loan at the rate of 12 % per annum. The loan is collateralized with telecommunications equipment with value of 89,309.

On May 24, 2004, the Company entered into a loan agreement with Sberbank (Sibirsky OSB) for 121,000. The loan matures on October 28, 2005. The Company pays interest on the loan at the rate of 12 % per annum. The loan is collateralized with telecommunications equipment with a value of 134,702.

On May 28, 2004, the Company entered into an overdraft loan agreement with Sberbank (Sibirsky Bank) for 20,000. The loan matures on June 7, 2004. The Company pays interest on the loan at the rate of 8 % per annum. The loan is not collateralized.

On June 21, 2004, the Company entered into an overdraft loan agreement with Sberbank (Sibirsky Bank) for 100,000. The loan matures on June 30, 2004. The Company pays interest on the loan at the rate of 8 % per annum. The loan is not collateralized.

Moskovsky Delovoy Mir (MDM)

On June 4, 2004, the Company entered into a loan agreement with AKB Moskovsky Delovoy Mir for 50,000. The loan matures on April 28, 2006. The Company pays interest on the loan at the rate of 13 % per annum. The loan is collateralized with telecommunications equipment with a value of 59,912.

On June 7, 2004, the Company entered into a loan agreement with AKB AKB Moskovsky Delovoy Mir for 50,000. The loan matures on April 28, 2006. The Company pays interest on the loan at the rate of 13 % per annum. The loan is collateralized with telecommunications equipment with a value of 59,903.

On June 8, 2004, the Company entered into a loan agreement with AKB AKB Moskovsky Delovoy Mir for 50,000. The loan matures on April 28, 2006. The Company pays interest on the loan at the rate of 13 % per annum. The loan is collateralized with telecommunications equipment with a value of 59,973.

Dividends

On June 18, 2004, the general meeting of the Company's shareholders approved dividends for 2003 in the amount of 0,03841 Rubles per preferred share and 0,00858 Rubles per ordinary share. Total dividends declared amounted to 150,134 and 103,075 for preferred and ordinary shares, respectively. Preferred dividends were accrued as of December 31, 2003 based on the preferred shareholders' minimum dividends rights. Ordinary dividends were accrued when declared in 2004.

Decrease of VAT rate

Commencing from January 1, 2004, the VAT rate was decreased from 20 % to 18 %.

Constitutional Court Resolution

In 2004, Resolution No. 169-O of the Constitutional Court of the Russian Federation dated April 8, 2004 has become publicly available. The resolution has the possible effect of deferring the timing in which companies are able to offset input VAT to the extent the creation of such VAT is deemed to be attributable to the utilization of borrowed funds. In the event local taxing authorities would assert and successfully defend such an interpretation, the result could have a material adverse impact on the Company's financial condition. As of the date of this report, management is unable to predict the outcome of this uncertainty.

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