Public Joint Stock Company
“Uralsvyazinform”

Consolidated Financial Statements as of December 31, 2002

with Independent Auditors’ Report

OAO " Uralsvyazinform"

Consolidated Financial Statements as of December 31, 2002

Contents

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying consolidated balance sheet of OAO "Uralsvyazinform" (a Russian open joint-stock company - hereinafter "the Company"), as of December 31, 2002, and the related statements of operations, cash flows and shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as discussed in paragraph 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 material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The Company has not presented comparative amounts for the year ended December 31, 2001 as required by International Accounting Standard ("IAS") 1, "Presentation of Financial Statements".

4. As described in note 22, 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.

5. As described in note 8, 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.

6. As a result of the matters described in paragraphs 4 and 5 above, adjustments, if any, could materially affect (i) property, plant and equipment, equipment contributions, assets and liabilities existing under benefits plans, deferred income tax liabilities, and retained earnings as of December 31, 2002, (ii) depreciation expense, other benefits expense, income tax expense and net income for the year ended December 31, 2002, and (iii) related disclosures.

7. In our opinion, except for the effects on the financial statements of such adjustments, if any, from the matters referred to in paragraphs 3, 4 and 5 above, the financial statements referred to above present fairly, in all material respects, the financial position of OAO "Uralsvyazinform" as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

8. As described in note 1, the Company was the subject of a reorganization that was approved by the shareholders on September 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 8, 2003 (except for the matter discussed in
note 26, Subsequent Events – Expiration of offer on bonds,
as to which the date is August 18, 2003).

OAO "Uralsvyazinform"

Consolidated Balance Sheet

As of December 31, 2002

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

	Note	2002
Assets		
Non-Current Assets		
Property, plant and equipment, net	8	**26,334,594**
Intangible assets, net	9	**175,043**
Goodwill, net	9,10	**161,500**
Available-for-sale financial assets	12	**161,865**
Investment in associates	11	**2,650**
Advances to suppliers of equipment		**427,635**
Total non-current assets		**27,263,287**
Current Assets		
Inventories, net	13	**790,139**
Trade accounts receivable, net	14	**1,249,736**
Other current assets, net	15	**2,439,601**
Marketable securities		**11,111**
Cash and cash equivalents	16	**495,917**
Total current assets		**4,986,504**
Total Assets		**32,249,791**
Shareholders' Equity and Liabilities		
Shareholders' Equity		
Preference shares	17	**940,313**
Ordinary shares	17	**3,875,854**
Treasury shares	17	**(27,438)**
Inflation impact on share capital		**3,933,136**
Retained earnings and other reserves		**8,984,844**
Total shareholders' equity		**17,706,709**
Commitments and Contingencies	22	**-**
Minority Interest		**182,084**
Non-Current Liabilities		
Long-term borrowings	18	**3,112,755**
Obligations under finance leases	19	**250,884**
Contributions of equipment		**97,740**
Deferred tax liability	5	**2,272,729**
Other		**152,148**
Total non-current liabilities		**5,886,256**

The accompanying notes to financial statements are an integral part of these financial statements.

Consolidated Balance Sheet
(Continued)

Current Liabilities		
Accounts payable and accrued expenses	20	**2,836,278**
Amount owing to Rostelecom for interconnection fees	23	**152,496**
Taxes and social security payable	21	**659,936**
Dividends payable		**26,149**
Short-term borrowings	18	**2,373,158**
Short-term portion of long-term borrowings	18	**1,645,962**
Short-term portion of obligations under finance leases	19	**780,763**
Total current liabilities		**8,474,742**
Total Liabilities and Shareholders' Equity		**32,249,791**

The accompanying notes to financial statements are an integral part of these financial statements.

OAO "Uralsvyazinform"

Consolidated Statement of Operations

For the year ended December 31, 2002

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

	Notes	2002
Revenues	4	**17,697,863**
Operating Expenses		
Wages, salaries, other benefits and payroll taxes		**(5,338,822)**
Depreciation and amortization		**(2,400,768)**
Materials, repairs, maintenance and utilities		**(1,453,050)**
Taxes other than on income		**(537,387)**
Interconnection charges		**(2,321,517)**
Bad debt expense		**(85,905)**
Loss on disposal of property, plant and equipment		**(116,315)**
Other operating expenses	4	**(2,545,955)**
Total operating expenses		**(14,799,719)**
Income from Operations		**2,898,144**
Income from associates		**4,840**
Interest expense and similar items, net	4	**(691,776)**
Loss on investments, net		**(19,610)**
Other income and (expenses), net		**(373,328)**
Foreign exchange loss		**(389,201)**
Net monetary gain		**602,538**
Income before Taxation and Minority Interest		**2,031,607**
Income Tax Expense	5	**(794,795)**
Net Income before Minority Interest		**1,236,812**
Minority Interest		**(76,259)**
Net Income		**1,160,553**
Preference Dividends	7	**(55,737)**
Net Income Available to Ordinary Shareholders	6	**1,104,816**
Basic and diluted earnings per share, rubles	6	**0.034**

The accompanying notes to financial statements are an integral part of these financial statements.

OAO "Uralsvyazinform"

Consolidated Statement of Cash Flows

For the year ended December 31, 2002

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

	2002
Cash flows from operating activities	
Income before taxation and minority interest	**2,031,607**
Adjustments for	
Depreciation and amortization	**2,400,768**
Loss on disposal of property, plant and equipment	**116,315**
Long-term investments impairment	**87,596**
Income from associates	**(4,840)**
Interest expense and similar items, net	**691,776**
Net monetary gain	**(602,538)**
Foreign exchange loss	**389,201**
Bad debt expense	**85,905**
	5,195,790
Increase in inventory	**(249,997)**
Increase in accounts receivable	**(416,545)**
Increase in other current assets	**(1,366,531)**
Increase in accounts payable and accrued liabilities	**1,161,687**
Loss on investments	**19,610**
Income taxes paid	**(687,664)**
Interest paid	**(643,968)**
Cash flows provided by operating activities	**3,012,382**
Cash flows from investing activities	
Capital investments	**(4,009,979)**
Purchases of financial investments	**(113,411)**
Acquisitions, net of cash acquired of 12,779	**(478,847)**
Interest received	**36,740**
Cash flows used in investing activities	**(4,565,497)**
Cash flows from financing activities	
Proceeds from bonds	**1,000,000**
Proceeds from loans and borrowings	**3,772,472**
Repayment of loans and borrowings	**(3,017,442)**
Dividends paid	**(145,610)**
Cash flows provided by financing activities	**1,609,420**
Monetary effects on cash and cash equivalents	**(75,892)**
Decrease in cash and cash equivalents	**(19,587)**
Cash and cash equivalents at the beginning of the year	**515,504**
Cash and cash equivalents at the end of the year	**495,917**
Non-monetary transactions:	
Non-cash additions to property, plant and equipment	**2,088,683**

The accompanying notes to financial statements are an integral part of these financial statements.

OAO "Uralsvyazinform"

Consolidated Statement of Shareholders' Equity

For the year ended December 31, 2002

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

	Note	Share capital (Nominal)		Treasury shares	Inflation impact on share capital	Retained Earnings and Other Reserves	Total Equity
		Preference shares	Ordinary shares				
At January 1, 2002	**1**	**940,313**	**3,875,854**	**(27,438)**	**3,933,136**	**7,965,870**	**16,687,735**
Net income for the year		–	–	–	–	**1,160,553**	**1,160,553**
Dividends	**7**	–	–	–	–	**(141,579)**	**(141,579)**
At December 31, 2002		**940,313**	**3,875,854**	**(27,438)**	**3,933,136**	**8,984,844**	**17,706,709**

The accompanying notes to financial statements are an integral part of these financial statements.

1. Corporate Information

Authorization of Accounts

The consolidated financial statements of OAO Uralsvyazinform and its subsidiaries (the "Company") for the year ended December 31, 2002 were authorized for issue by its appointed General Director and Chief Accountant on August 8, 2003.

The Company

The Company completed its last charter registration on January 15, 2003. This amendment was due to the process of reorganization into OAO Uralsvyazinform. The Company is an open joint stock company incorporated in Russia.

The Company was privatized in 1994 and its principal activity is providing local and long-distance telephone services (including domestic and international telecommunication services, cellular services of GSM, NMT, and AMPS standards, and paging services). Other types of activity of the Company include tele-radio broadcasting and data transmission in the Perm region.

Open joint-stock company Svyazinvest, a federal holding company majority-owned by the Russian Federation, owns 51% of the Company's common stock. Domestic and international long-distance telecommunication services are provided by OAO "Rostelecom", a subsidiary of OAO "Svyazinvest".

The average number of employees in the Company in 2002 was approximately 37,703 persons (after giving retroactive effect of the reorganization described below).

The registered office of the Company is in the city of Perm in the Russian Federation, 68 Lenin St.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

1. Corporate Information (continued)

2002 Reorganization

In 2001 the Company's management started the Company’s reorganization. After obtaining shareholder approval to merge the regional enterprises of OAO “Svyazinvest”, wherein 23,554,844,291 ordinary and 7,835,941,286 preference shares of the Company were exchanged for 100% of the ordinary and preference shares of the merged enterprises as follows:

	Shares issued by the Company		
Regional Enterprise	**Ordinary**	**Preference**	**Exchange Ratio**
OAO “Elektrosvyaz” of Kurgan region	978,871,953	326,641,525	133.30259734
OAO “Svyazinform” of Chelyabinsk region	6,540,810,860	2,175,262,321	1,316.73752298
OAO “Uraltelecom” of Sverdlovsk region	6,180,053,956	2,054,528,433	604.55185921
OAO “Yamalelektrosvyaz”	2,487,523,682	829,142,081	220.75756257
OAO “Tumentelecom”	4,557,209,787	1,515,692,862	169.26463472
OAO “Khantymansiyskokrtelecom”	2,810,374,053	934,674,064	161.22295530
Total	**23,554,844,291**	**7,835,941,286**	

The merger was completed and effective on October 1, 2002. Transaction costs related to the merger were approximately 167 million rubles and expensed.

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 earliest period presented. Unless otherwise described, all information presented in these financial statements gives retroactive effective to the reorganization.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

1. Corporate Information (continued)

2002 Reorganization (continued)

Based on the requirements IAS 22, the following table summarizes total assets, liabilities, revenue and pre-tax income (loss) for each of the regional operations for the year in which the reorganization had been completed:

	Total assets	Total liabilities	Revenue	Pre-tax Income (loss)
The Company	7,602,909	(6,315,669)	3,602,693	602,548
OAO “Elektrosvyaz” of Kurgan region	1,039,113	(189,855)	510,072	(23,021)
OAO “Svyazinform” of Chelyabinsk region	8,406,344	(2,455,003)	3,546,834	312,167
OAO “Uraltelecom” of Sverdlovsk region	5,648,407	(1,602,569)	3,324,220	202,673
OAO “Yamalelektrosvyaz”	982,178	(499,619)	1,048,472	(11,934)
OAO “Tumentelecom”	3,707,557	(1,400,278)	1,893,112	243,875
OAO “Khantymansiyskokrtelecom”	4,957,099	(1,991,821)	5,045,116	705,299
Eliminations and other adjustments	(93,816)	93,816	(1,272,656)	0
Total	**32,249,791**	**(14,360,998)**	**17,697,863**	**2,031,607**

Before the restructuring in October 2002, the businesses operated as separate subsidiaries of OAO Svyazinvest. Accordingly, the Company has a limited operating history as a combined business.

Russian Business Environment

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.

1. Corporate Information (continued)

Liquidity and Financial Resources

As of December 31, 2002, the Company’s current liabilities exceeded its current assets by 3,488,238. As a result, significant uncertainties exist as to the Company’s liquidity and future capital resources.

To date, the Company has significantly relied upon short-term and long-term financing to fund the improvement of its telecommunication network. This financing has historically been provided through bank loans and vendor financing.

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

Through 2003, the Company anticipates funding from a) existing cash reserves, b) cash generated from operations, c) placement of ruble bonds in the Russian market, d) other financing from domestic lending institutions, and e) household deposits in a subsidiary bank. 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 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 reports have been adjusted to present the accompanying financial statements in accordance with IFRS. IFRS include standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee Foundation (IASCF) that remain in effect. Significant differences exist between Russian Accounting Regulations and IFRS.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

2. Summary of Significant Accounting Policies (continued)

Basis of Preparation (continued)

The consolidated financial statements have been prepared on an historical cost basis (adjusted for the effects of inflation in accordance with IAS 29), except for the measurement at fair value of available-for-sale financial assets.

Financial statement presentation herein is limited to the balance sheet at December 31, 2002 and the related statements of operations, cash flows and shareholders’ equity for the year ended December 31, 2002. A comparative balance sheet at December 31, 2001, along with separate comparative statements of operations, cash flows and shareholders’ equity for the year ended December 31, 2001, and the related note disclosures for such comparative financial statements, as required by International Accounting Standard (“IAS”) No. 1, Presentation of Financial Statements, have not been presented. Following the reorganization described in note 1, the Company believes that presentation of comparative financial information is not practicable, including the determination of retained earnings as of January 1, 2002.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

2. Summary of Significant Accounting Policies (continued)

Management Estimates

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. As described elsewhere, the Company has accounted for the reorganization based on the principles of uniting of interests 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.

Significant intercompany balances and transactions have been eliminated.

Minority interests reflect the interests in subsidiaries not held by the Company (see note 10).

Investments in Associates

The Company’s investments in its associates are accounted for under the equity method of accounting. This is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company. The investment in associates are carried in the 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 statement of operations reflects the Company’s share of the results of operations of the associates.

Accounting for the Effects of Inflation

The accompanying consolidated financial statements are prepared in accordance with IFRS and under the historical cost convention and adjusted in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29).

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

2. Summary of Significant Accounting Policies (continued)

Accounting for the Effects of Inflation (continued)

The adjustments and reclassifications made to the statutory records for the purpose of IFRS reporting include the restatement for changes in the general purchasing power of the ruble in accordance with IAS 29. IAS 29 requires that financial information prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. These adjustments were calculated using conversion factors derived from the Russian Federation Consumer Price Index ("CPI") published by the Russian State Committee on Statistics.

The indices used to adjust amounts in these consolidated financial statements with respect to 2002 prices (2002 = 1.0) for the years ended December 31, and the respective conversion factors, are:

Year	Index	Conversion factor
1992	7,541	362.4
1993	67,846	40.3
1994	211,612	12.9
1995	487,575	5.6
1996	594,110	4.6
1997	659,403	4.1
1998	1,216,401	2.2
1999	1,663,091	1.6
2000	1,997,843	1.4
2001	2,374,037	1.2
2002	2,733,087	1.0

The main guidelines followed in adjusting the consolidated financial statements to current purchasing power are:

- all amounts are stated in terms of the measuring unit current at December 31, 2002;
- monetary assets and liabilities at December 31, 2002 are not restated as they are already expressed in terms of the monetary unit current at December 31, 2002;
- non-monetary assets and liabilities which are not carried at amounts current at December 31, 2002 and shareholders' equity are restated by applying the relevant conversion factors;
- indexation adjustments to property, plant and equipment applicable to prior periods are credited to "Retained earnings and other reserves" in the accompanying balance sheet;
- all items in the consolidated statements of operations and of cash flows are adjusted by applying appropriate conversion factors with the exception of depreciation, amortization and losses from disposal of fixed assets and other assets;

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

2. Summary of Significant Accounting Policies (continued)

Accounting for the Effects of Inflation (continued)

- the effect of inflation on the Company's net monetary position is included in the consolidated statement of operations as a gain or loss on net monetary position.

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 for hyperinflation. As a result, management has determined that it will cease to restate for changes in the general purchasing power of the ruble subsequent to December 31, 2002. The annual rate of inflation during 2002 was 15.1%.

Foreign Currency Translation

Foreign currency assets and liabilities are translated into rubles at official Central Bank of the Russian Federation (CBR) exchange rates at the yearend. 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 financial statements on the same principles as transactions denominated in foreign currencies.

Property, Plant and Equipment

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

Buildings	50 years
Constructions	20 years
Switches	15 years
Other telecommunication equipment	15 years
Computers	5 years
Vehicles	5 years
Other	5 years

Construction in progress is recorded as the total of actual expenses incurred by the Company from the beginning of construction to the reporting date, adjusted for the effect of inflation from the date when such expenses occur to the reporting date in accordance with IAS 29. Construction in progress is depreciated once the property, plant and equipment are put into operation.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

Borrowing costs that are directly 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 when the activities to prepare the asset for intended use start and lasts until the assets are ready for their intended use. Other interest expenses and borrowing costs are recognized as expenses in the period in which they are incurred.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. Renewals and betterments are capitalized. Upon 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.

Property, Plant and Equipment Contributions

Property, plant and 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.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment Contributions (continued)

If contributions of property, plant and equipment do not generate revenues such contributions are not recorded.

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 a respective asset in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Aid Information".

Intangible Assets

Intangible assets acquired separately from a 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 on initial recognition, 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.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is amortized on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. 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 depreciation and any impairment in value.

Research and Development Costs

Research and development costs are expensed as incurred.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

2. Summary of Significant Accounting Policies (continued)

Investments

All investments are initially recognized at cost. After initial recognition, investments which are classified as held for trading and available-for-sale are measured at fair value if determinable. 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.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost using the effective interest rate method.

The majority of the Company's investments are in securities that are not actively traded on organized financial markets.

Inventories

Inventories are priced at the lower of cost or net realizable value. Cost is determined primarily 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 maturity dates of 3 months or less as of December 31, 2002.

Treasury Shares

Treasury shares, recorded at cost, are presented in the balance sheet as a deduction from equity.

2. Summary of Significant Accounting Policies (continued)

Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognized at cost. After initial recognition, interest-bearing loans and borrowings, are subsequently measured at amortized cost 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, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 (including contributions to the state pension fund) 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.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

2. Summary of Significant Accounting Policies (continued)

Pensions and Other Post-employment Benefits (continued)

Under collective bargaining agreements, the Company also provides post-employment retirement benefits. The majority of the Company’s employees are eligible to participate under such defined benefit plans based upon a number of factors, including years of service, age and compensation. The Company has not complied with IAS 19, “Employee Benefits”. Specifically, the Company has not made an actuarial determination of the present value of its benefit obligation under these arrangements to allow it to record its obligation and make the required disclosures under IAS 19 as of December 31, 2002.

In order to fund a portion of the Company’s obligation, the Company also participates in plans under which the Company has committed to contribute agreed amounts (negotiated annually) to certain non-government pension plans. Contributions made by the Company to these plans are charged to expense when incurred.

Leases

Finance leases of equipment that transfer substantially all the risks and rewards incident 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 far 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 benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

2. Summary of Significant Accounting Policies (continued)

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recorded on accrual basis, net of value added tax.

The Company categorizes its revenue sources in eleven major categories:

1. Monthly subscription fees for local services;
2. Long distance services;
3. Network services;
4. Installation fees;
5. Internet services;
6. Radio and TV broadcasting;
7. Rent of premises;
8. Telegraph services;
9. Wireless services;
10. Other telecommunication services;
11. Other revenues.

Monthly subscription fees for local services
The Company recognizes revenues related to the monthly network fees for local services in the month that the service is provided to the subscriber.

Long distance services
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.

Network services
The Company provides other telecommunication operators with access to its network. The Company recognizes revenues related to network services in the period when the services were rendered.

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

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

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

2. Summary of Significant Accounting Policies (continued)

Revenue (continued)

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

Rent of premises
The Company leases its premises to other businesses under annual contracts. Renewal options are available on the majority of leases. These contracts are accounted for as operating leases and related rental revenues are recognized over the lease term.

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

Wireless services

The Company recognizes the revenues related to wireless services in the period when the services were rendered.

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

Other revenues
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 tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12 "Income Taxes".

IAS 12 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 for financial reporting purposes. 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.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

2. Summary of Significant Accounting Policies (continued)

Income tax (continued)

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 undistributed earnings of associated companies are recognized when it is probable that such earnings will be remitted to the Company in the foreseeable future.

Value-added Tax

Value-added taxes related to sales are payable to the tax authorities on an accrual basis based upon invoices issued to the subscriber. VAT incurred for purchases and paid to suppliers may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions that are not currently reclaimable as of the balance sheet date are recognized in the balance sheet on a gross basis.

3. Segment Information

The Company provides telecommunication (wireline and wireless) services, banking services, transport and construction services. Management considers that the Company operates in one geographical segment. Banking, transport and construction services are not material (less than 10% of total operations) for the Company.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

3. Segment Information (continued)

During 2002 information about business segments was as follows:

	Wireline communications services	Wireless communications services	Other operations	Eliminations	Consolidated
REVENUE					
External sales	13,531,016	3,699,270	467,577	–	17,697,863
Inter-segment sales	1,036,700	–	8,690	(1,045,390)	–
Total revenue	**14,567,716**	**3,699,270**	**476,267**	**(1,045,390)**	**17,697,863**
RESULT					
Segment result	2,290,160	1,052,265	32,302	–	3,374,727
Unallocated corporate expenses	–	–	–	–	(476,583)
Operating profit	–	–	–	–	2,898,144
Income from associates	–	–	–	–	4,840
Interest expense and similar items	–	–	–	–	(691,776)
Loss on investments	–	–	–	–	(19,610)
Other income (expenses) (net)	–	–	–	–	(373,328)
Foreign exchange loss	–	–	–	–	(389,201)
Monetary gain	–	–	–	–	602,538
Income tax expense	–	–	–	–	(794,795)
Minority interest in subsidiaries	–	–	–	–	(76,259)
Net income	–	–	–	–	**1,160,553**
OTHER INFORMATION					
Segment assets	24,487,943	2,458,516	512,420	–	27,458,879
Unallocated corporate assets	–	–	–	–	4,790,912
Consolidated total assets	–	–	–	–	**32,249,791**
Segment liabilities	11,368,502	838,456	436,335		12,643,293
Unallocated corporate liabilities					1,717,705
Consolidated total liabilities					**14,360,998**
Capital expenditure	5,398,427	661,036	39,199		6,098,662
Depreciation and Amortization	2,258,593	129,970	12,205		2,400,768

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

4. Revenues and Expenses

Revenues

	2002
Domestic long-distance services	5,314,278
Monthly subscription fees for local services	3,238,422
Wireless services	3,699,270
International long-distance services	1,304,635
Installation fees	971,386
Domestic timed calls	612,258
Networks services	442,787
Radio and TV broadcasting	380,477
Telegraph services	213,917
Data transmission services	168,014
Other telecommunication services	100,179
Other revenues	1,252,240
Total	**17,697,863**

Wireless revenues are derived from the wireless segment and mainly include usage charges, subscription fees, value added services, and roaming fees charged to other operators for guest roamers utilizing Company's network.

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 goods and services provided by non-core subsidiaries.

For the year ended December 31, 2002, the Company identified revenue by these major customer groups:

	2002
Residential customers	8,350,962
Corporate customers	8,098,277
Government customers	1,248,624
Total	**17,697,863**

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

4. Revenues and Expenses (continued)

Other Operating Expenses

	2002
General and administrative	903,238
Cost of goods sold	443,670
Advertizing	182,456
Rent (excluding channel rent)	166,895
Business trips	50,660
Other	799,036
Total	**2,545,955**

General and Administrative Expenses

	2002
Payments to Gossvyaznadzor	82,778
Security	189,895
Consulting	45,613
Post	24,642
Transport	23,351
Other G&A	536,959
Total	**903,238**

Interest expense and similar items	**2002**
Interest income	(36,740)
Interest expense	733,222
Less: Capitalized interest	(4,706)
Total	**691,776**

5. Income Tax

Income Tax Expense

	2002
Current tax charge	535,357
Deferred tax charge	259,438
Income tax charge	**794,795**

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

5. Income Tax (continued)

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

	2002
Profit from operating activities before income tax	2,031
At statutory income tax rate of 24%	487,586
Effect of:	
Expenses not deductible for tax purposes	114,550
Currency gains and losses	14,916
Permanent elements of monetary gain	526,150
Inflation effect on deferred tax balance at beginning of year	(63,477)
Other reconciling items	(284,930)
At effective income tax rate of 39%	**794,795**

Deferred Income Tax

	Balance Sheet 2002
Deferred income tax assets:	
Accounts payable	3,480
Other	32,995
Gross deferred income tax assets	**36,475**
Deferred income tax liabilities:	
Property, plant and equipment	(2,091,298)
Inventories	(9,610)
Accounts receivable	(31,440)
Investment valuation difference	(18,043)
Other	(158,813)
Gross deferred income tax liabilities	(2,309,204)
Net deferred income tax liability	**(2,272,729)**

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

6. Earnings per Share

Basic and diluted earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Ordinary shares issued as part of the reorganization, that has been accounted for similar to a uniting of interests, are included in the calculation of the weighted average number of shares from January 1, 2002 as the financial statements of the Company are prepared as if the combined entity had existed from that date. Therefore, the number of ordinary shares is the aggregate of the weighted average number of shares of the combining entities, adjusted to equivalent shares of the Company outstanding after the reorganization.

	2002
Net income attributable to ordinary shareholders (for basic and diluted EPS)	1,104,816
Weighted average number of ordinary shares for basic and diluted EPS	32,298,782,020
Earnings per ordinary share, rubles (basic and diluted)	**0.034**

The Company has no potential dilutive shares outstanding.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

7. Dividends Paid and Proposed

Declared in the year (for the year 2001)

Dividends on ordinary shares	85,842
Dividends on preference shares	55,737
Total	**141,579**

Approved at annual shareholder meeting for 2002 (see note 26, Subsequent Events)

Dividends on ordinary shares	71,307
Dividends on preference shares	127,257
Total	**198,564**

Dividends paid to shareholders are determined by the directors and legally declared and approved at the annual shareholders' meeting. Earnings available for dividends are limited to profits determined in accordance with Russian statutory accounting regulations.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

8. Property, Plant and Equipment, net

	Buildings and constructions	Switches and transmission devices	Assets under construction and equipment awaiting installation	Land, Machines and Other	Total
Cost					
As of January 1, 2002	25,510,548	25,844,316	1,403,810	5,664,651	58,423,325
Additions	–	–	6,098,662	–	6,098,662
Disposals	(341,460)	(837,180)	(46,177)	(237,140)	(1,461,957)
Transfers	1,168,485	3,155,719	(5,134,622)	810,418	–
As of December 31, 2002	**26,337,573**	**28,162,855**	**2,321,673**	**6,237,929**	**63,060,030**
Impairment					
As of January 1, 2002	(967,976)	(982,167)	(472,292)	(151,023)	(2,573,458)
Charge for the year	–	–	–	–	–
Recoveries / reversals	86,243	2,397	3,183	–	91,823
As of December 31, 2002	**(881,733)**	**(979,770)**	**(469,109)**	**(151,023)**	**(2,481,635)**
Accumulated Depreciation					
As of January 1, 2002	(14,146,407)	(15,014,353)	–	(3,891,642)	(33,052,402)
Charge for the year	(634,757)	(1,216,176)	–	(510,084)	(2,361,017)
Depreciation on disposals	274,643	733,739	–	161,236	1,169,618
As of December 31, 2002	**(14,506,521)**	**(15,496,790)**	**–**	**(4,240,490)**	**(34,243,801)**
Net book value as of December 31, 2002	**10,949,319**	**11,686,295**	**1,852,564**	**1,846,416**	**26,334,594**

The carrying value of plant and equipment held under finance leases at December 31, 2002 is 442,427. Leased assets are pledged as security for the related finance lease liabilities (See note 19).

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

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

The total interest costs capitalized during 2002 amounted to 4,706.

Buildings and equipment with a book value of 4,166,220 as of December 31, 2002 secure bank loans (See Note 18).

As of December 31, 2002 vendor financing is secured by the equipment amounting to 645,220 until the last installment is paid (see Note 18).

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.

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

9. Intangible Assets and Goodwill, net

	Licences	Software and other	Total
Cost			
At January 1, 2002	225	269,092	269,317
Additions	1,043	34,732	35,775
Disposals	(51)	(72,532)	(72,583)
At December 31, 2002	**1,217**	**231,292**	**232,509**
Accumulated amortization			
At January 1, 2002	(97)	(49,641)	(49,738)
Charge for the year	(142)	(26,508)	(26,650)
Disposals	-	18,922	18,922
At December 31, 2002	**(239)**	**(57,227)**	**(57,466)**
Net book value at December 31, 2002	**978**	**174,065**	**175,043**

Licenses and software are being amortized evenly over their useful lives determined based on terms of the license or the license agreement for software. Useful lives of other intangible assets are 5 years.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

9. Intangible Assets and Goodwill, net (continued)

Goodwill of 174,595 arising on the 2002 acquisition of ZAO “Radiotelefon-G and ZAO “Mobilniy servis” (See note 10) is being amortized evenly over the directors’ estimate of its useful economic life of 10 years. Amortization expense for the year ended December 31, 2002 totaled 13,095.

10. Investments in Subsidiaries

The consolidated financial statements include the financial statements of OAO “URALSVYAZINFORM” and the significant subsidiaries listed in the following table:

Subsidiary	Main activity	Voting shares 2002
OOO “Perminform”	Data networks	**100%**
OOO “Uralinfrom TV”	Broadcasting	**100%**
ZAO “Infinvest”	Maintenance of telecom equipment	**100%**
ZAO “Svyazinformkomplekt”	Trading	**100%**
OOO “TyumentelecomInvest”	Financial markets	**100%**
ZAO “Center vnedreniaya spetsializirovannih system”	Systems development	**100%**
OOO “Yuzhno-Uralskyi sotovyi telefon”	Wireless communications	**100%**
ZAO “Radiotelefon-G”	Wireless communications	**100%**
ZAO “Mobilniy Servis”	Wireless communications	**100%**
ZAO “Ermak RMS”	Wireless communications	**90%**
Pension Fund «Svyazist»	Pension plans	**63%**
ZAO “AKIB Pochtabank”	Banking	**63%**
ZAO “VSNET”	Internet	**52%**
OAO “Uralvestkom”	Wireless communications	**51%**
ZAO “Tyumenruscom”	Wireless communications	**51%**

All the above-mentioned companies are Russian legal entities registered in accordance with Russian regulations.

Acquisition of ZAO “Radiotelefon-G” and ZAO “Mobilniy Servis”

On April 18, 2002, the Company acquired 100% of ZAO “Radiotelefon-G” and ZAO “Mobilniy Servis” for US$ 13 million (approximately 441,978) in cash. These acquisitions increased the Company’s ownership in Limited Company “Yuzhno-Uralskiy Sotoviy Telefon” from 45% to 83%. The Company began to consolidate “Yuzhno-Uralskiy Sotoviy Telefon” from April, 2002. As of December 31, 2002, the Company owns 100% of Limited Company “Yuzhno-Uralskiy Sotoviy Telefon”, after acquiring the remaining 17% of shares for 49,649.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

10. Investments in Subsidiaries (continued)

Acquisition of ZAO "Radiotelefon-G" and ZAO "Mobilniy Servis" (continued)

The fair value of the identifiable assets and liabilities of "Yuzhno-Uralskiy Sotoviy Telefon" acquired are:

Assets:	
Non-current assets	527,104
Current assets	183,120
Goodwill	174,595
Total Assets	**884,819**
Liabilities:	
Trade payables	(95,140)
Deferred tax liability	(61,932)
Net Assets	727,747
Less: previous carrying value of the Company's equity method investment in ZAO "Yuzhno-Uralskiy Sotoviy Telefon"	(236,120)
Total purchase consideration and acquisition costs	**491,627**

This acquisition was accounted for under the purchase method of accounting.

11. Investments in Associates

Associate	Main activity	Percentage of ownership	As of December 31, 2002
ZAO Teleross-Ekaterinburg	Communication	50%	2,622
ZAO Teleross--Tyumen	Communication	50%	474
ZAO "Ural-Teleservice"	IT services	25%	1106
Other			601
Less impairment			(2,153)
Total net investments in associates			**2,650**

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

12. Available-for-Sale Financial Assets

	2002	
	Percentage of ownership	**Amount**
Loans issued by Pochtobank		108,231
Svyazbank	8%	22,771
Other		55,603
Provision for impairment		(24,740)
Total		**161,865**

Available-for-sale financial assets do not have a quoted market price in an active market. Accordingly, management has reflected such assets at cost.

13. Inventories

	2002
Cable, materials and spare parts for telecommunication equipment	632,685
Finished goods and goods for sale	136,394
Other inventory	24,490
Provision for obsolescence	(3,430)
Total	**790,139**

14. Trade Accounts Receivable, net

Accounts receivable at December 31, 2002 comprised the following:

	2002
Trade receivables – telecommunication services	1,594,198
Trade receivables – other	7,548
Less allowance for doubtful accounts	(352,010)
Total	**1,249,736**

As of December 31, 2002, the Company identified trade receivables for telecommunication services by the following major customer groups:

	2002
Residential customers	828,118
Corporate customers	549,380
Government customers	216,700
Total	**1,594,198**

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

14. Trade Accounts Receivable, net (continued)

The Company invoices its governmental and corporate customers on a monthly basis. For residential customers, the Company sends monthly payment requests and substantially relies upon these customers to remit payments based on the received payment requests. All customer payments are based upon tariffs, denominated in rubles, in effect at the time of calls made. In limited circumstances, the Company has billed and collected penalties associated with delays in payment and has been able to obtain certain payments through the Arbitrage Court. In order to further reduce a portion of the risk associated with customer nonpayments, the Company has in certain circumstances negotiated arrangements wherein the Company has accepted payment in goods and services, which are utilized in carrying out its non-core business.

15. Other current assets, net

Other current assets at December 31, 2002 comprised the following:

	2002
VAT	1,061,754
Prepayments and advances	440,473
Other tax prepaid	279,374
Settlements with personnel	89,792
Other receivables	610,535
Less Provision	(42,327)
Total	**2,439,601**

16. Cash and Cash Equivalents

	2002
Cash at bank and in hand	408,468
Short-term bank deposits	54,688
Other	32,761
Total	**495,917**

The fair value of cash and cash equivalents equals its book value.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

17. Share Capital

Share capital:	2002	
	Shares	Share capital
Preference shares, 0.12 rubles par value		
Shares issued and outstanding as of December 31, 2002	7,835,941,286	940,313
Shares authorized, not issued	7,164,058,714	
Less: treasury shares	10,407,444	(1,249)
Ordinary shares, 0.12 rubles par value		
Shares issued and outstanding as of December 31, 2002	32,298,782,020	3,875,854
Shares authorized, not issued	11,445,155,709	
Less: treasury shares	218,239,360	(26,189)
Total share capital		**4,788,729**

The share capital account represents the authorized capital of the Company as stated in the charter documents. The Company had 32,298,782,020 ordinary shares and 7,835,941,286 preference shares type A issued as of December 31, 2002. All shares have a par value of 0.12 rubles. All shares are fully paid.

The state registration of the charter documents was completed on January 15, 2003. In accordance with IAS 10, *Events After the Balance Sheet Date*, such changes of the charter capital were recognized as of December 31, 2002 in the accompanying financial statements.

Of the capital shares issued as of December 31, 2002, 80% was attributable to ordinary shares and 20% attributable to preference shares, type A. The ordinary shareholders are allowed one vote per share. Preference shares type A are non-voting. All ordinary shares and preference shares type A are eligible for distribution of earnings available in accordance with Russian statutory accounting regulations. Preference shares type A are entitled to a minimum annual dividend in the amount equal to 10% of statutory net income available for dividends. Dividends on preference shares type A may not be less than the dividends on ordinary shares. Shareholders of preference shares type A have a preference right to recover the par value of preference shares in liquidation.

Treasury shares are held by Tyumentelecominvest, a subsidiary of the Company.

In June 1997 the Company signed a Deposit agreement with The Bank of New York as a Depositary and Owners and Holders of American Depositary Receipts. At the same time, the Securities and Exchange Commission (SEC) registered a Level 1 ADR program for ordinary shares. In August 2002 the company changed the Depositary by signing new Deposit agreement with JP Morgan Chase Bank as the successor Depositary.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

17. Share Capital (continued)

In September 2002, the SEC registered the Level 1 ADR program for preference shares on the basis of a Depositary agreement signed between the Company, JP Morgan Chase Bank as a Depository and Owners and Holders of American Depositary Receipts. Each ADR is equal to 200 ordinary and preference shares correspondingly. At the end of 2002 1,951,139,600 ordinary shares and 320,406,800 preference shares were deposited in the form of ADRs, that amounted to 5,7% of the Charter capital of the Company.

The following represents the Company's shareholders as of December 31, 2002 (in shares):

	Ordinary shares		Preference shares		Total
		%		%	
OAO "Svyazinvest"	16,608,946,183	51	–	-	16,608,946,183
Other legal entities[1]	11,846,001,322	37	5,493,33	70	17,339,335,381
Individuals	3,843,834,515	12	2,342,60	30	6,186,441,742
Total:	**32,298,782,020**	**100**	**7,835,94**	**100**	**40,134,723,306**

[1] – includes shares held by Tyumentelecominvest, a subsidiary of the Company.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

18. Loans and Borrowings

	Currency	Effective interest rate	Maturity	2002
Short-term borrowings				
Bank loans				
Sberbank	RUR	13-23%	2003	477,298
UralSib	RUR	19.5-21.5%	2003	300,000
Promstroybank	RUR	21%	2003	201,266
Alfa-bank	RUR, EUR	12.5-22%	2003	200,545
Vneshtorgbank	RUR	21%	2003	150,000
Other		10-23%	2003	726,798
Vendor financing				
Alcatel	EUR	4.5-6.5%	2003	134,090
Iskratel	USD, EUR	6-10%	2003	43,122
Other				63,161
Regional authorities loans	RUR	1-6%	2003	3,000
Other				73,878
Total short-term borrowings				**2,373,158**
Long-term borrowings				
Bank loans				
Sberbank	RUR	18-20%	2003-2004	1,583,931
Alfa-Bank	USD	8%	2003-2004	329,873
National Reserve Bank	EUR	10%	2004-2005	236,697
Svyazbank	RUR	22%	2004	31,326
Other		18-22%	2004-2007	253,788
Vendor financing				
Vnesheconombank	EUR	4.5-6.5%	2004-2006	180,782
London Forfeiting Company PLC	EUR	4.5-6.5%	2004-2006	183,489
Drezdner Bank	EUR	4.5-6.5%	2004-2006	135,430
Siemens AG	EUR	6%	2003-2006	57,210
Other	RUR,USD, EUR	6-20%	2003-2006	676,343
Regional authorities loans		0-10.5%	2004	39,851
Bond loan			2003-2009	1,049,997
Total long-term borrowings				4,758,717
Less: current portion of long-term borrowings				(1,645,962)
Total				**3,112,755**

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

18. Loans and Borrowings (continued)

Short-term borrowings

Short-term borrowings mainly represent ruble bank loans received for working capital financing purposes. Many of these loans are secured by communication equipment.

Long-term borrowings

Sberbank

The Company's long-term borrowings from Sberbank are represented mainly by the ruble-nominated credits with interest at 18-20%. The most significant loans are as follows:

In 2002, the Company signed a credit line contract with AKB "Sberbank" in the amount of 450,000. The loan maturity date is June 17, 2004. During 2002, the annual interest rate on this loan was 19%. As of December 31, 2002 the Company's outstanding balance on this loan was 450,000 and accrued interest outstanding was 984. Property, plant and equipment for the amount of approximately 755 million rubles were pledged as collateral for this loan.

In 2002, the Company signed a credit line contract with AKB "Sberbank" in the amount of 390,000. The loan maturity date is February 20, 2004. During 2002, the annual interest rate on this loan was 19.5%. As of December 31, 2002, the Company's outstanding balance on this loan was 390,000 and accrued interest balance was 2,917. Property, plant and equipment for the amount of approximately 731 million rubles were pledged as collateral for this loan.

In 2002 the Company signed a credit line contract with AKB "Sberbank" in the amount of 370,000. The loan maturity dated is April 13, 2004. During 2002 the annual interest rate on this loan was 19%. As of December 31, 2002, the Company's outstanding balance on this loan was 370,000 and accrued interest balance was 3,274. Property, plant and equipment for the amount of approximately 649 million rubles were pledged as collateral for this loan.

Alfa-Bank

The Company's long-term borrowings from Alfa-Bank are represented mainly by a US$ 12.9 million loan granted in 2002. The loan maturity date is September 20, 2004. During 2002 the annual interest rate on this loan was 8%. As of December 31, 2002, the Company's outstanding balance on this loan was US$ 9.6 million (305,866). Property, plant and equipment for the amount of approximately 430 million rubles were pledged as collateral for this loan.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

18. Loans and Borrowings (continued)

Long-term borrowings (continued)

National Reserve Bank

In 2002, the Company received a loan from AKB “National Reserve Bank” in the amount of EUR 3.8 million (116,659). The loan maturity date is October 7, 2005. During 2002 the annual interest rate on this loan was 10%. As of December 31, 2002, the Company’s outstanding balance on this loan was EUR 3.5 million (116,659). Property, plant and equipment for the amount of approximately 134 million rubles were pledged as collateral for this loan.

In 2002, the Company received a loan from AKB “National Reserve Bank” in the amount of EUR 4.2 million (120,038). The loan maturity date is October 7, 2005. During 2002, the annual interest rate on this loan was 10%. As of December 31, 2002, the Company’s outstanding balance on this loan was EUR 3.6 million (120,038). Property, plant and equipment for the amount of approximately 153 million rubles were pledged as collateral for this loan.

Vendor Financing

Alcatel

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 bears interest at 4.5-6.5% per annum. Interest on financing with below market rates is accrued at a weighted average interest rate on the Company’s interest bearing borrowings obtained in appropriate periods and denominated in Euro, which approximated 6% per annum.

Vnesheconombank, London Forfeiting Company PLC and Drezdner Bank purchased the amounts due to Alcatel under the vendor financing agreement, including accrued interest and penalties in 2002.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

18. Loans and Borrowings (continued)

Vendor financing (continued)

In 2001, the Company entered into several agreements with Siemens AG, under which Siemens AG delivered telecommunication equipment to the Company. The amounts payable under these agreements are denominated in EUR. The agreements do not provide for interest payments thus the amount of liability as at December 31, 2002 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 and denominated in EUR, which approximated 6% per annum.

Other

Other vendor financing comprises amounts payable to various vendors and includes several overdue amounts for which the date of legal extinguishment of a liability has not occured as of December 31, 2002.

Bonds

On August 2, 2002, the Company issued 1,000,000 coupon bonds with par value 1 each. Bonds have 12 coupons paid each 90 days having an annualized interest rate at 17.5%. The bonds have a stated maturity of August 6, 2005.

On August 19, 2002, the Company placed an irrevocable offer to retire the bonds on August 18, 2003 in the event the bonds were presented to the Company for settlement by August 11, 2003. As the Company has no control over the process of bonds presentation for repayment, the liabilities are classified as short-term as of December 31, 2002.

The bond's market value was 102% of par value as of December 31, 2002.

19. Obligations under Finance Leases

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, 2002 are as follows:

	Minimum payments	Present value of payments
Within one year	816,918	780,763
After one year but not more than five years	499,748	250,884
Total minimum lease payments	1,316,666	
Less amounts representing finance charges	(285,019)	
Present value of minimum lease payments	**1,031,647**	**1,031,647**

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

19. Obligations under Finance Leases (continued)

In 2002 the Company's major lessor was RTC-Leasing (see also Note 24, *Related Parties Disclosures*). Effective interest rate on finance leases in 2002 varies between 11% and 44% per annum.

In accordance with the agreements with RTC-Leasing, the lessor has a right to adjust schedules of future lease payments subject to certain changes in economic environment, in particular, change in the refinancing rate of the Central Bank of the Russian Federation.

20. Accounts Payable and Accrued Expenses

	2002
Settlements with suppliers for capital construction	943,931
Trade accounts payable	519,627
Advances received from subscribers	451,094
Payable to personnel	359,875
Other trade payables	561,751
Total	**2,836,278**

21. Taxes and Social Security Payable

As of December 31, 2002, the Company identified the following major taxes payable:

	2002
Value added tax	401,118
Profit tax	46,348
Property tax	53,662
Personal income tax	31,198
Sales tax	24,698
Unified social tax	61,476
Other taxes	41,436
Total	**659,936**

22. Pension Plans and Employee Benefits

The Company has social payments to employees such as bonuses to employees aged 50 to 60 years old, pecuniary aid (material assistance), education, medical and other benefits. The social payments are expensed as incurred and recorded as a part of salary expenses in the income statement. The social payments equated to 309 million in 2002.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

22. Pension Plans and Employee Benefits (continued)

In 2002, the Company recognized various payments to employees in addition to salary. These payments generally represent financial aid to the Company's employees with limited abilities and bonuses to employees, which had made no breaches of internal policies during the last fiscal year. Such benefits were included in salary, benefits, salary taxes and other social expenditures in the accompanying consolidated statement of operations for the year ended December 31, 2002 and approximated 331 million roubles.

In addition to statutory pension benefits, the Company also contributes to defined benefit plans, which cover most of its employees. Non-government pension fund "Svyazist", non-government pension funds "Parma-Pension" and "Khanti-Mansiiskiy", which are related to the Company, maintain the plans. The plans provide for payments 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 level, length of service, both in the Company and in the telecommunications industry as well as final average earnings and position in the Company. The benefits are not vesting and are subject to the employee retiring from the Company on or after the above-mentioned respective ages. The Company makes contributions to the pension funds in the amounts representing fixed percentage of participating employees' salaries or in amounts fixed in the agreements with pension funds, depending on the nature of each particular agreement.

As described in Note 2, *Summary of Significant Accounting Policies*, the Company has not made an actuarial determination of the present value of its benefit obligation under these arrangements to allow it to record its obligation and plan asset and make the required disclosures under IAS 19, Employee Benefits, as of December 31, 2002

23. Commitments and Contingencies

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 2002, the Company maintains insurance coverage on a significant part of their property, plant and equipment asset bases, but there is no compensation in respect of business interruption, or third party liability related to 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 of destruction of certain assets could have a material adverse effect on the Company's operation and financial position.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

23. Commitments and Contingencies (continued)

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.

24. Related Party Disclosures

(1) Svyazinvest

The Company regards Svyazinvest as its parent entity. Svyazinvest was wholly owned by the Russian Government until July 1997 when the Government sold 25% plus one share of the Charter Capital of 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.

(2) Rostelecom

Rostelecom, a majority owned subsidiary of Svyazinvest, is the primary provider of domestic long distance and international telecommunications services in the Russian Federation. The Company has negotiated interconnection agreements with Rostelecom. The annual expense associated with traffic carried by Rostelecom and terminated outside of the Company's network is stated as interconnection charges. Related amounts included in the accompanying consolidated financial statements as at December 31, 2002 and for the year then ended were as follows:

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

24. Related Party Disclosures (continued)

(2) Rostelecom (continued)

	2002
Channel rent and traffic charges paid to Rostelecom	1,780,823
Revenue from Rostelecom	11,246
Accounts payable to Rostelecom	152,496

(3) Transactions with State organisations

State organisations 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 13 % of trade accounts receivable as of December 31, 2002. Amounts outstanding from Government subscribers as of December 31, 2002 amounted to 216,700.

(4) RTC-Leasing

RTC-Leasing is an investee of Rostelecom. Rostelecom exercises control over the management, policies and day-to-day operations of RTC-Leasing. RTC-Leasing purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment.

In 2002 the Company concluded a number of capital lease agreements with RTC-Leasing. Under the agreements total minimum lease payments equated to 892,206 (including VAT) (see note 19 "Obligations under Finance Leases").

(5) Non-Commercial Partnership "Center for Research of the 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 Svyazinvest. Payments to the Partnership included in other operating expenses in the accompanying consolidated statement of operations for the year ended December 31, 2002 amounted to approximately 147 million rubles.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

24. Related Party Disclosures (continued)

(6) Management

In 2002 the Company acquired from certain members of management shares of ZAO "Radiotelefon-G and ZAO "Mobilniy servis" for approximately US$ 3.04 million (103,191 - see note 10).

25. Financial Instruments

Fair Values

Management believes that carrying value of the financial instruments included in the accompanying consolidated balance sheet as of December 31, 2002 approximates their fair value.

Interest Rate Risk

The following table sets out, by maturity, the Company's financial instruments that are exposed to interest rate risk as of December 31, 2002.

	<1 year	1-5 years	>5 years	Total
Fixed rate				
Short-term borrowings	(2,373,158)	–	–	(2,373,158)
Long-term borrowings	(1,644,962)	(3,100,634)	–	(4,745,596)
Obligations under finance leases	(780,763)	(250,884)	–	(1,031,647)
Floating rate				
Loan payable to regional governments under CBR rate	(1,000)	(12,121)	–	(13,121)

26. Subsequent Events

Telecommunications Reforms

- A new law "On Telecommunications" will come into effect on January 1, 2004.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

26. Subsequent Events (continued)

Telecommunications Reforms (continued)

- Subsequent to December 31, 2002, Rostelecom commenced reforms of the system of settlements with regional operators for domestic long-distance traffic. Under the existing method, settlements between Rostelecom and regional operators are based on one minute of domestic transit traffic sent through 50 km of Rostelecom networks. The integral settlement rate (ISR) contains two components – a linear component and a termination charge, which is calculated based on the weighted average of incoming and outgoing traffic. The ISR was set once a year based on the traffic data for the preceding year and distorted the economic benefits and costs of providing and terminating transit traffic in the year applied.

  Under the planned changes, full consideration is expected to be given to the cost of Rostelecom carrying and benefits to the Company in terminating domestic long-distance traffic. Such system will allow the Company to receive revenues for terminating domestic long-distance traffic based on actual volumes of traffic in the current period, which will increase the transparency and timeliness of settlements..

  As of August 8, 2003 the Company did not sign the new interconnection agreements with Rostelecom.

Management cannot currently predict the outcome of these changes on the Company's future operations.

Dividends

On June 20, 2003, the annual meeting of shareholders of the Company approved the dividends for the year 2002 in the amount of 0.0091 rubles per one preference share and 0.00394 rubles per one ordinary share. Total dividend announced amounted to 198,564 (127,257 and 71,307 for preference shares and ordinary shares, respectively). Dividends for the year ending December 31, 2002 are payable during 2003 and will be recognized in the financial statements as of and for the year ending December 31, 2003. (See also Note 7, *Dividends Paid and Proposed*.)

Issue of bonds

On April 29, 2003 the Board of Directors approved the issue of 3,000,000 documentary bearer non-convertible bonds with 1,000 rubles face value each. Bonds have 6 coupons. Interest payments per each coupon are scheduled for every 182nd day from the first day of the placement. Interest rate is to be set on tender held on the date of issue. The debentures mature 1,092 days after the placement. On July 22, 2003, the Company placed the bonds. The annual yield rate for the first coupon was set at 14.25%.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

26. Subsequent Events (continued)

Expiration of offer on bonds

On August 18, 2003, no bonds were presented to the Company for settlement (See Note 18). Accordingly, no bonds were retired.

Contracts

(1) Implementation of Oracle

In May 2003, an agreement was signed with ZAO Open Technologies 98 for the purchase of Oracle E-Business Suite for a total of US$ 18.7 million. In May 2003, a loan agreement was approved with ZAO Open Technologies 98 for a total of 90,000, the purpose of which was to finance the purchase of Oracle E-Business Suite.

(2) Purchase of cellular equipment

In April 2003, an agreement was signed with OAO Yugra-Telecom for the purchase of cellular equipment for a total of US$ 2.9 million.

(3) New lease agreements with RTC-Leasing

In April and July 2003, related party leases were concluded with OAO RTC-Leasing with undiscounted future lease payments totally 603,688 over five years.

(4) Loan agreements with Sberbank

In May 2003, the Company approved an agreement for the provision of a non-revolving loan facility and a collateral agreement with the Joint Stock Commercial Savings Bank of the Russian Federation (Sberbank), for 100,000 with an interest rate of 16% and maturity in 18 months.

In July 2003, the Company approved an agreement for the provision of a non-revolving loan facility and a collateral agreement with the Joint Stock Commercial Savings Bank of the Russian Federation (Sberbank). The loan facility was provided for a total of 400,000 maturing in 18 months with an interest rate of 14.5%.

(5) Loan agreement with Vneshtorgbank

In June 2003, the Company approved a loan agreement and collateral agreement with OAO Foreign Trade Bank (Vneshtorgbank) for a total of US$ 5.4 million, with an interest rate of 7.65% and maturing in 4 years.

(6) Loan agreements with Alfa Bank

In January 2003, a loan agreement and collateral agreement were approved with OAO Alfa Bank for a total of 200,000 at 20% for 2 years.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

26. Subsequent Events (continued)

(6) Loan agreements with Alfa Bank (continued)

In February 2003, a loan agreement and collateral agreement were approved with OAO Alfa Bank for a total of 300,000 at 20% for 2 years.

In May 2003, the Company approved a loan agreement and collateral agreement with OAO Alfa Bank for a total of 500,000 at 16% for 2 years.

In June 2003, the Company approved a loan agreement and collateral agreement with OAO Alfa Bank for a loan totaling 100,000 at 15% for 2 years.

(7) Loan agreement with Transkreditbank

In June 2003, the Company approved a loan facility agreement and collateral agreement with OAO Transcreditbank for a total of 300,000 with an interest rate of 16% for 18 months.

(8) Loan agreements with Promstroybank

In May 2003, the Company approved a loan agreement and collateral agreement with OAO PromStroiBank for a total of 270,000 with interest at 16% for 1 year.

In June 2003, the Company approved a loan agreement and collateral agreement with OAO Promstroibank for a total of 230,000 with interest at 15% for 1 year.

(9) Loan agreement with Guta-Bank

In May 2003, the Company approved an agreement for the provision of a loan facility and collateral agreement with OAO Guta Bank Commercial Bank for Enterprise Development. The loan facility was provided for a total of 200,000 with interest at 16% and maturing in 18 months.

(10) Loan agreement with Pochtobank

In April 2003, the Company approved an agreement for the provision of a loan facility with ZAO Pochtobank, which is related to the Company, for a total of 100,000 with interest at 18% for 2 years.

(11) Loan agreement with Gazprombank

In April 2003, the Company approved an agreement for the provision of a loan facility and a collateral agreement with OAO Gazprombank for a total of 500,000 with interest at 18% for 18 months.

(In thousands of rubles in terms of purchasing power of the ruble at December 31, 2002)

26. Subsequent Events (continued)

(12) Loan agreements with International Moscow Bank

In January 2003, a loan agreement and collateral agreement were approved with ZAO International Moscow Bank for a total of 100,000 at 20% interest for 18 months.

In April 2003, the Company approved an agreement for the provision of a loan facility and collateral agreement with ZAO International Moscow Bank for a total of EUR 2 million.

(13) Loan agreement with Menatep Bank

In February 2003, a loan agreement and collateral agreement were approved with ZAO Menatep Bank for a total of 120,095 at 20% interest for 18 months.