OAO ROSTELECOM

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED DECEMBER 31, 2002

INDEX

STATEMENT OF DIRECTORS' RESPONSIBILITIES

To the Shareholders of OAO Rostelecom

1. International convention requires that management prepare consolidated financial statements which present fairly, in all material respects, the state of affairs of the Group at the end of each financial period and of the results and cash flows for each period. Management are responsible for ensuring that all Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards and that their statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management considers that, in preparing the consolidated financial statements set out on pages 5 to 48, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that appropriate International Financial Reporting Standards have been followed.

3. The consolidated financial statements, which are based on the statutory accounting reports adjusted to comply with International Financial Reporting Standards, are hereby approved on behalf of the Board of Directors.

For and on behalf of the Board of Directors:

S.I.Kuznetsov
General Director

OAO Rostelecom
1st Tverskaya-Yamskaya, 14,
Moscow
Russian Federation

June 6, 2003

Report of Independent Auditors

To the Shareholders of OAO Rostelecom:

We have audited the accompanying consolidated balance sheet of OAO Rostelecom, an open joint stock company, and its subsidiaries (hereinafter referred to as the "Group"), as of December 31, 2002, 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 Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing. 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board.

Ernst & Young (CIS) Limited

Moscow, Russia
June 6, 2003

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

	Notes	December 31, 2002	December 31, 2001
ASSETS			
Property, plant and equipment, net	6	56,278	62,677
Investments in associates	8	2,635	1,239
Long-term financial investments	9	578	-
Goodwill	10	39	-
Negative goodwill, net of current portion	7, 10	(240)	-
Lease receivables	11	2,713	676
Other non-current assets	6	356	-
Non-current assets		**62,359**	**64,592**
Inventory		502	664
Accounts receivable, net	12	8,617	8,533
Short-term investments	13	4,575	3,238
Short-term portion of negative goodwill	7, 10	(471)	-
Cash and cash equivalents	14	3,642	2,222
Current assets		**16,865**	**14,657**
Total assets		**79,224**	**79,249**
SHAREHOLDERS' EQUITY, MINORITY INTEREST AND LIABILITIES			
Share capital	15	100	100
Retained earnings		48,933	48,654
Total shareholders' equity		**49,033**	**48,754**
Minority interest	16	**2,825**	**1,929**
Accounts payable and accrued expenses	17	5,162	5,862
Amounts owed to customers		1,003	-
Taxes payable		2,253	2,072
Current portion of interest bearing loans	18	4,529	6,709
Short-term borrowings	19	1,537	1,204
Current liabilities		**14,484**	**15,847**
Interest bearing loans – net of current portion	18	2,317	1,091
Non-current accounts payable		262	379
Deferred tax liability	20	10,303	11,249
Non-current liabilities		**12,882**	**12,719**
Total liabilities		**27,366**	**28,566**
Total shareholders' equity, minority interest and liabilities		**79,224**	**79,249**
Commitments and contingencies	29 and 30	**-**	**-**

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

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

		Year ended December 31,		
	Notes	**2002**	**2001**	**2000**
Revenue				
Local operators		14,016	13,337	12,256
Subscribers		7,913	8,648	10,358
Foreign operators		5,100	6,852	9,860
Other		1,112	1,432	1,611
Total revenue	21	**28,141**	**30,269**	**34,085**
Operating expenses				
Wages, salaries, other benefits and payroll taxes		(3,704)	(3,877)	(4,210)
Depreciation		(9,106)	(7,997)	(7,627)
Charges by network operators – international		(5,779)	(7,438)	(9,145)
Charges by network operators – national		(1,707)	(2,190)	(2,274)
Administration and other costs		(3,454)	(3,349)	(4,892)
Taxes other than on income		(872)	(1,635)	(1,445)
Repairs and maintenance		(452)	(637)	(656)
Bad debt (expense) / recovery		(863)	28	(361)
Loss on sale of property, plant and equipment	6	(449)	(554)	(125)
Total operating expenses		**(26,386)**	**(27,649)**	**(30,735)**
Operating profit		**1,755**	**2,620**	**3,350**
Gain / (loss) from associates (excluding related tax)	8	**393**	**(35)**	**634**
Interest expense		(869)	(1,515)	(2,825)
Interest income		430	131	158
Income from sale of investments	13	1,840	-	-
Other non-operating income, net	23	556	84	92
Foreign exchange (loss) / gain, net		(983)	291	627
Monetary gain		165	2,472	1,782
Income before tax and minority interest		**3,287**	**4,048**	**3,818**
Current tax charge	24	(2,998)	(2,987)	(2,229)
Deferred tax benefit /(charge)	24	1,593	4,029	(2,644)
Share in income taxes of associates	24	(133)	(161)	(215)
Income tax (expense) / benefit		**(1,538)**	**881**	**(5,088)**
Income / (loss) after taxation		**1,749**	**4,929**	**(1,270)**
Minority interest	16	(1,071)	(322)	(1,190)
Net income / (loss)		**678**	**4,607**	**(2,460)**
		Rubles	**Rubles**	**Rubles**
Earnings /(loss) per share – basic and diluted	26	**0.61**	**6.15**	**(3.85)**

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

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

	Note	Year ended December 31, 2002	2001	2000
Cash flows from operating activities				
Net income before taxation and minority interest		3,287	4,049	3,818
Adjustments to reconcile net income before taxation and minority interest to cash generated from operating activities:				
Depreciation	6	9,106	7,997	7,627
Bad debt expense /(recovery)	12	863	(28)	-
Share in (income) / loss of associates	8	(393)	35	(634)
Loss on disposal of property, plant and equipment		449	554	125
Income from sale of investments		(1,840)	-	-
Net interest and other non-operating income		(117)	1,300	2,575
Equity-based compensation		-	279	-
Other non-monetary income		(77)	-	-
Foreign exchange loss / (gain)		983	(291)	(633)
Gain on net monetary position		(165)	(2,472)	(1,782)
Changes in net working capital:				
Decrease / (increase) in accounts receivable		600	(260)	1,365
(Increase) / decrease in lease receivables		(3,408)	482	(1,040)
Decrease / (increase) in inventories		187	71	(340)
Increase / (decrease) in payables and accruals		691	(661)	342
Cash generated from operations		**10,166**	**11,055**	**11,423**
Interest paid		(1,270)	(1,375)	(3,144)
Interest received		375	131	158
Income tax paid		(3,558)	(2,848)	(1,492)
Net cash provided by operating activities		**5,713**	**6,963**	**6,945**
Cash flows from investing activities				
Purchase of property, plant and equipment		(2,281)	(2,020)	(3,491)
Proceeds from sale of property, plant and equipment		23	25	-
Purchase of subsidiaries, net of cash acquired		(1,138)	-	-
Purchase of available-for-sale investments (securities), net		(2,198)	(1,637)	(1,460)
Proceeds from sale of available-for-sale investments, net of direct costs		1,970	766	1,529
Advances to investee and other companies		(1,020)	-	-
Advances to investee and other companies returned		1,046	-	-
Purchase of investments		-	-	(326)
Dividends received from associates		97	98	-
Net cash used in investing activities		**(3,501)**	**(2,768)**	**(3,748)**
Cash flows from financing activities				
Proceeds from bonds issue	16	1,532	1,669	-
Redemption of bonds	16	(1,021)	(576)	-
Drawdown of interest bearing loans		5,879	3,389	3,847
Repayment of interest bearing loans		(6,165)	(7,288)	(7,665)
Proceeds from notes issue		1,344	-	-
Redemption of notes		(1,347)	-	-
Dividends paid		(363)	(248)	(439)
Dividends paid to minority shareholders of subsidiary		(294)	-	-
Proceeds from sale of additional ordinary shares by subsidiary		24	(201)	-
Net cash used in financing activities		**(411)**	**(3,255)**	**(4,257)**
Effect of exchange rate changes on cash and cash equivalents		**36**	**36**	**9**
Net increase/(decrease) in cash and cash equivalents		**1,837**	**976**	**(1,051)**
Monetary effects on cash		**(417)**	**(329)**	**(158)**
Cash and cash equivalents at beginning of period		**2,222**	**1,575**	**2,784**
Cash and cash equivalents at the end of period		**3,642**	**2,222**	**1,575**
Non-monetary transactions:				
Non-cash additions to property, plant and equipment		103	1,882	1,782
Financial instruments received in connection with disposition of property, plant and equipment		545	-	-

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

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

	Note	Share capital	Treasury shares	Retained earnings	Total
Balance at December 31, 1999		**100**	**(2)**	**47,192**	**47,290**
Treasury shares elimination		-	2	(2)	-
Dividends		-	-	(414)	(414)
Net loss for the year		-	-	(2,460)	(2,460)
Balance at December 31, 2000		**100**	**-**	**44,316**	**44,416**
Dividends	15	-	-	(269)	(269)
Net income for the year		-	-	4,607	4,607
Balance at December 31, 2001		**100**	**-**	**48,654**	**48,754**
Dividends	15	-	-	(399)	(399)
Net income for the year		-	-	678	678
Balance at December 31, 2002		**100**	**-**	**48,933**	**49,033**

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

1. REPORTING ENTITY

The accompanying consolidated financial statements are presented by OAO "Rostelecom" ("Rostelecom" or the "Company"), and its subsidiaries (together the "Group"), which are incorporated in the Russian Federation ("Russia"), Switzerland, the Republic of Cyprus ("Cyprus") and the United Sates of America ("USA"). The principal activity of the Group is the provision of intercity and international telecommunications services to the Government, businesses and people of Russia. The Group operates the main intercity network and the international telecommunications gateways of the Russian Federation, carrying traffic that originates on other national and international operators networks to other national and international operators for completion.

The Company's headquarters are located in Moscow at 1st Tverskaya-Yamskaya street, 14.

The accompanying consolidated financial statements incorporate the results of operations of the Company and its subsidiaries, as detailed in Note 7.

Rostelecom was established as an open joint stock company on September 23, 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia No. 1507-r, dated August 27, 1993. As of December 31, 2002, the Government of the Russian Federation controlled indirectly 50.67% of the voting share capital of the Company, by virtue of its 75% less one share direct holding in OAO Svyazinvest ("Svyazinvest"), the parent company of Rostelecom.

2. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board.

The Group maintains its accounting records and prepares its statutory accounting reports in accordance with Russian accounting legislation and instructions in Russian Rubles. The accompanying consolidated financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with the standards and interpretations prescribed by the International Accounting Standards Board.

The consolidated financial statements have been prepared using the historical cost convention, restated for the effects of inflation and modified by the initial valuation of property, plant and equipment as further disclosed in Note 5 to the accompanying consolidated financial statements. The functional currency of the Group and the reporting currency for the accompanying consolidated financial statements is the Russian Ruble (Rbl).

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 at the date of the financial statements and the reported amounts of revenues and operating costs during the reporting period. The most significant estimates relate to the recoverability and depreciable lives of property, plant and equipment, allowance for doubtful accounts, and deferred taxation. Actual results could differ from these estimates.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

3. OPERATING ENVIRONMENT OF THE COMPANY

General

Over the past decade Russia has undergone substantial political, economic and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current Government is attempting to address these issues; however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result, and as reflected in the Government's debt default and Ruble devaluation in 1998, operations in Russia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation. The Group will continue to be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets, and the ability of the Group to maintain or pay its debts as they mature. The accompanying consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Group's consolidated financial statements in the period when they become known and can be reasonably estimated.

Currency exchange and control

Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Russia. Following the 1998 economic crisis, the Ruble's value fell significantly against the US Dollar, falling from a pre-crisis rate of approximately 6 Rubles to 1 US Dollar, to 27 Rubles to 1 US Dollar by the end of 1999. During 2000, 2001 and 2002, the Ruble's value fluctuated between 26.9 and 31.8 to 1 US Dollar. As of June 6, 2003, the exchange rate was 30.65 Rubles to 1 US Dollar.

The following table summarizes the exchange rate of the Ruble to 1 US Dollar for the years ended December 31, 2002, 2001 and 2000.

	Exchange Rate
As of December 31,	
2002	31.78
2001	30.14
2000	28.16

Source: Central Bank of Russia

The Central Bank of Russia has established strict currency control regulations designed to promote the commercial utilization of the Ruble. Such regulations place restrictions on the conversion of Rubles into foreign currencies and establish requirements for conversion of foreign currency sales to Rubles.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

Inflation

The Russian economy has been characterized by relatively high rates of inflation. The following table summarizes the annual rate of inflation for the past three years:

For the year ended December 31,	Annual inflation
2002	15.1%
2001	18.8%
2000	20.2%

Source: Goskomstat of Russia

The Group's principal inflation rate risk relates to the Group's ability to recover the investments in non-monetary assets, specifically property, plant and equipment, as well as to raise tariffs for services in line with the growth of operating expenses caused by inflation. In the event high levels of inflation continue, the Group could have financial difficulties accompanied by deterioration in its results of operations and liquidity position.

Taxation

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), turnover based taxes, and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies. Therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters), are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems. In recent years, the Russian government has initiated revisions of the Russian tax system. Effective January 1, 1999, the first part of the Tax Code was enacted. Effective January 1, 2001, the second part of the Tax Code was enacted. The new tax system is generally intended to reduce the number of taxes and, thus, the overall tax burden on businesses, and to simplify the tax laws.

Refer to Note 30 for description of possible tax contingencies.

4. ACCOUNTING FOR THE EFFECTS OF INFLATION

IFRS 29, "Financial Reporting in Hyperinflationary Economies", requires that financial statements prepared on a historic cost basis be adjusted to take account of the effects of inflation, for entities reporting in hyperinflationary economies. The accompanying consolidated financial statements have been restated in terms of the measuring unit current at the latest presented balance sheet date and the net gains or losses arising on the net monetary position of assets and liabilities during the periods presented have been included in the statement of operations and disclosed separately. The Group has utilized the general price index reported by the State Committee on Statistics of the Russian Federation ("Goskomstat") in the application of IFRS 29. The application of IFRS 29 to specific categories of transactions and balances within the consolidated financial statements is set out as follows:

Corresponding figures

Corresponding figures for the previous reporting periods have been restated by applying to the amounts included in the previous years' financial statements the change in the general price index. Comparative financial information is therefore presented in terms of the measuring unit current as of December 31, 2002, being the latest date for which financial statements are presented.

Monetary assets and liabilities

Cash and cash equivalents, available-for-sale investments, receivables, payables, interest bearing loans, current taxation and dividends have not been restated as they are monetary assets and liabilities and are stated in Rubles current at the balance sheet date.

Gains or losses on the net monetary position of assets and liabilities which arise as a result of inflation, are computed by applying the change in the general price index to the monetary assets and monetary liabilities during the period.

Non-monetary assets and liabilities

Non-monetary assets and liabilities are restated from their historic cost or valuation by applying the change in the general price index from the date of recognition to the balance sheet date.

Consolidated statements of operations and cash flows

Items included in the consolidated statement of operations and cash flows are restated by applying the change in the general price index from the dates when the items were initially recorded to the balance sheet date.

5. PRINCIPAL ACCOUNTING POLICIES

Set out below are the principal accounting policies used to prepare the accompanying consolidated financial statements:

Principles of consolidation

The Group comprises the Company, its subsidiaries and associates. Transactions and balances between the Company and its subsidiaries are eliminated, and accounting policies of the subsidiaries are adjusted to conform to those of the Group. A subsidiary is an entity that is controlled by the Company, either through ownership, directly or indirectly, of more than 50 percent of the voting share capital of the entity, or other means.

The excess of purchase price paid over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired is recognized as goodwill and is depreciated during its expected useful life. The excess of the fair value of acquired identifiable net assets over purchase price paid is reflected as negative goodwill and is depreciated over the remaining weighted average useful life of identifiable non-current assets acquired, unless other method is more appropriate based on the expected use of non-current assets. The excess of negative goodwill over fair value of identifiable non-monetary assets acquired is recognized as income in the period of acquisition.

Associates in which the Group has significant influence but not a controlling interest are accounted for using the equity method of accounting. Significant influence is usually demonstrated by the Group owning, directly or indirectly, between 20 per cent and 50 per cent of the voting share capital or by exerting significant influence through other means. The Group's share of the net income or losses of associates is included in the consolidated statement of operations, and the Group's share of the net assets of associates is included in the consolidated balance sheet. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment. Unrealized profits that arose from transactions between the Group and its associates were eliminated in the proportion to the Group's share in such associates, and unrealized losses were excluded in the proportion to the Group's share in such associates, if there is no evidence of indicators of impairment of an asset transferred.

In case the share in an entity from 20% to 50% is acquired with intention to sell it in a foreseeable future, such investment is accounted for as investment available-for-sale.

Property, plant and equipment

For the purpose of determining the opening balance sheet on the first application of IFRS at January 1, 1994, the Company performed a valuation of the property, plant and equipment, as reliable historical cost information and information regarding acquisition dates was not available. A brief description of the methodology applied in performing this valuation is set out below for each major asset category:

- Buildings and site services - current replacement cost;
- Cable and transmission devices - current replacement cost;
- Telephone exchanges - modern equivalent asset;
- Assets in course of construction - indexed historic cost.

Cost or valuation of the network comprises all expenditures up to and including the cabling and wiring to the local telephone operator's intercity exchange, and includes contractors' charges and payments on account, materials, direct labor, and interest costs on specific project financing up to the date of commissioning of the relevant assets.

Subsequent expenditures are capitalized if it can be clearly demonstrated that they extend the life of the asset or significantly increase its revenue generating capacity beyond its originally assessed standard of performance. Expenditure for continuing repairs and maintenance are charged to the statement of operations as incurred. Social assets are expensed on acquisition.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the determination of net income.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

Depreciation is calculated on property, plant and equipment on a straight-line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Number of years
Buildings and site services:	10 – 50
Cable and transmission devices:	
• Channels	10 – 40
• Cable	30 – 40
• Radio and fixed link transmission equipment	15 – 20
• Telephone exchanges	15
Other	5 – 10

The useful lives and depreciation methods are reviewed periodically to ensure that the methods and the periods of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

At each balance sheet date an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognized immediately as an expense in the statement of operations. Any subsequent increase in the recoverable amount of the assets would be written back when the circumstances that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. Increase of the recoverable amount is limited to the lower of its recoverable amount and carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

The recoverable amount is determined as the higher of the assets: net selling price and value in use. The value in use of the assets is estimated based on forecast future cash inflows and outflows to be derived from continuing use of the assets and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction in progress is not depreciated until the constructed or installed asset is ready for its intended use.

Finance leases

Upon inception of a finance lease the Group records the net investment in leases, which consists of the sum of the minimum lease payments and unguaranteed residual value (gross investment in lease) less the unearned finance lease income. The difference between the gross investment and its present value is recorded as unearned finance lease income. The unearned finance lease income is amortized over the life of the lease using the constant interest rate method.

With the exception noted below, the date of inception of the lease is considered to be the date of the lease agreement or commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties to the transaction, and shall specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed or has not been acquired by the Group at the date of the lease agreement or commitment, the inception of the lease shall be the date when construction of the property is completed or the property is acquired by the Group. Any advance payments made by the lessee prior to commencement of the lease reduce the net investment in lease.

The Group records capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are being accumulated until the equipment is ready for use and being transferred to the lessee.

Inventory

Inventory principally consists of fuel and spare parts for the network. Inventory is stated at the lower of cost incurred in bringing each item to its present location and net realizable value. Cost is calculated on a first in first out basis. Items used in the construction of new plant and equipment are capitalized as part of the related asset. Inventory used in the maintenance of equipment is charged to operating costs as utilized and included in repair and maintenance and other costs in the accompanying consolidated statements of operations.

Construction contracts

When the result from a construction contract can be measured reliably, revenues and expenses from it are accounted for in the consolidated statement of operations based on the stage of completion of the contract. Losses expected from the contract are recognized in the statement of operations immediately.

Accounts receivable

Receivables are stated in the balance sheet at the fair value of the consideration given and are carried at amortized cost, after provision for impairment. Bad debts are written off in the period in which they are identified.

Provision for impairment is created based on the historical pattern of collections of accounts receivable and specific analysis of significant accounts.

Investments

Investments are classified into the following categories: loans and receivables originated by the Group, held-to-maturity, trading and available-for-sale. Loans and receivables originated by the Group are financial assets created by providing money, goods or services directly to a debtor, unless they are originated with the intent to be sold immediately. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments are classified as available-for-sale.

The Group had no securities classified as held-to-maturity or trading at December 31, 2002 and 2001. Loans and receivables originated by the Group, including lease receivables are stated at amortized cost determined on individual basis. Available-for-sale investments are stated at fair value determined on an individual investment basis. Unrealized gains and losses are included in the determination of net income. Income from available-for-sale investments is included in other non-operating income in the consolidated statement of operations. Interest income from investments is accrued during the period in which it is earned.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments with original maturities of three months or less, with insignificant risks of diminution in value.

Deferred income taxes

Deferred income taxes are determined utilizing the balance sheet liability method. This method gives consideration to the future tax consequences associated with the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Under this method deferred taxes are required to be recognized for all temporary differences with certain specific exceptions. Temporary timing differences primarily arise on the recognition of property, plant and equipment, receivables and payables in different accounting periods to those permitted under the Russian accounting regulations.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset will be realized or the liability settled. Tax rates are based on laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized when it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

Revenue and operating costs recognition

Revenue and operating costs for all services supplied and received are recognized at the time the services are rendered. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be reliably measured.

The Company charges regional telephone operators and other telecommunication service providers in Russia either an agreed proportion of the amounts they collect from subscribers or an agreed settlement rate based on traffic minutes. For outgoing telephone traffic originating in Moscow, subscribers are charged directly by the Company.

The Company charges amounts to foreign network operators for incoming calls and other traffic that originate outside Russia.

The Group is charged by foreign operators for completing international calls.

These revenues and costs are shown gross in these financial statements, and exclude value added tax. Amounts payable to and receivable from the same operators are shown net in the balance sheet where a legal right of offset exists.

Employee benefits

The Company makes certain payments to employees on retirement, or when they otherwise leave the employment of the Company. These obligations, which are unfunded, represent obligations under a defined benefit pension scheme. For such plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of operations so as to spread the regular cost over the average service lives of employees. Actuarial gains and losses are recognized in the statement of operations immediately.

Where such post-employment employee benefits fall due more than 12 months after the balance sheet date, they are discounted using a discount rate determined by reference to market yields on Government bonds at the balance sheet date.

The Company also participates in a defined contribution plan under which the Company has committed to contribute up to a maximum of 2% of salary for each employee choosing to participate in the plan.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

Contributions made by the Company on defined contribution plans are charged to expense when incurred.

The Group contributed 85 to these plans during the year ended December 31, 2002 (2001: 167, 2000: 182).

The Group does not accrue for the employees' compensated absences (vacations) since the information on the accrued unused vacations cannot be reasonably estimated due to unavailability of detailed records. Costs related to the compensated absences of employees are expensed as incurred.

Advertising costs

Advertising costs are charged to the statement of operations as incurred.

Borrowing costs

Borrowing costs are expensed except for those that would have been avoided if the expenditure to acquire the qualifying asset had not been made. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Qualifying borrowing costs are capitalized with the relevant qualifying asset from the date the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred until the related asset is substantially ready for its intended use. Capitalized borrowing costs are subsequently charged to the statement of operations in the period over which the asset is depreciated.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into Rubles at the exchange rate as of the transaction date. Foreign currency monetary assets and liabilities are translated into Rubles at the exchange rate as of the balance sheet date.

Exchange differences arising on the settlement of monetary items, or on reporting the Group's monetary items at rates different from those at which they were initially recorded in the period, or reported in previous financial statements, are recorded as foreign currency translation gains or losses in the period in which they arise.

As at December 31, 2002 and 2001 the rates of exchange used for translating foreign currency balances were (in Russian Rubles for one unit of foreign currency):

	2002	**2001**
US Dollars	31.78	30.14
German Marks	-	13.54
Japanese Yen	0.2663	0.2287
Special Drawing Rights (SDR)	42.95	37.86
EURO	33.11	26.49

Source: the Central Bank of Russia

Reclassifications

Certain amounts reported in the prior period consolidated financial statements have been reclassified to conform with the current year presentation.

Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, available-for-sale investments, receivables, accounts payable and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The Company and the Group do not enter into hedging transactions.

Dividends

Dividends are recognized when the shareholder's right to receive payment is established. Dividends stated to be in respect of the period covered by the financial statements and that are proposed or declared after the balance sheet date but before approval of the financial statements are not recognized as a liability at the balance sheet date in accordance with IFRS 10, "Events After the Balance Sheet Date". The amount of dividends proposed or declared after the balance sheet date but before the financial statements were authorized for issue is disclosed in Note 15.

Minority interest

Minority interest includes that part of the net results of operations and of net assets of subsidiaries attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Company. Minority interest is carried at the minority's proportion of the pre-acquisition carrying amounts of the net identifiable assets and liabilities of the subsidiaries. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered. If a subsidiary or an associate has outstanding cumulative preferred shares which are held outside the Group, the Company computes its share of profit or losses after adjusting for the preferred dividends, whether or not the dividends have been declared.

Segment information

Operating segments are the primary segments of the Group. The Group identifies the following operating segments:

- Telecommunications services
- Lease services
- Banking and investing activities

Operating segments were identified based on the organizational structure of the Group and types of activities the Company and its subsidiaries are engaged in.

The accounting principles used to reflect transactions between reportable segments are the same as those used for transactions with external parties.

Stock-based compensations

The Group accounts for stock-based compensations using the fair value method. Except for the issue of preferred shares by RTC-Leasing in 2001, as more fully described in Note 7 below, the Group did not develop any stock-based compensation plans.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

6. PROPERTY, PLANT AND EQUIPMENT, NET

The net book value of property, plant and equipment as of December 31, 2002 and 2001 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost or valuation					
At January 1, 2002	24,299	127,849	22,266	3,851	178,265
Additions	-	7	-	2,689	2,696
Property, plant and equipment of acquired subsidiaries	10	1,022	206	114	1,352
Disposals	(441)	(2,120)	(379)	(43)	(2,983)
Transfers	144	1,053	1,542	(2,739)	-
At December 31, 2002	24,012	127,811	23,635	3,872	179,330
Accumulated Depreciation					
At January 1, 2002	15,588	87,330	12,671	-	115,589
Depreciation expense	584	6,132	2,390	-	9,106
Relative share in accumulated depreciation on property, plant and equipment of acquired subsidiaries accounted for using the equity method before acquisition	1	270	108	-	379
Disposals	(350)	(1,363)	(309)	-	(2,022)
At December 31, 2002	15,823	92,369	14,860	-	123,052
Net book value at December 31, 2002	8,189	35,442	8,775	3,872	56,278

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost or valuation					
At January 1, 2001	26,589	128,396	22,678	2,023	179,686
Additions	-	336	20	3,643	3,999
Disposals	(2,326)	(2,094)	(933)	(67)	(5,420)
Transfers	36	1,211	501	(1,748)	-
At December 31, 2001	24,299	127,849	22,266	3,851	178,265
Accumulated Depreciation					
At January 1, 2001	17,065	84,210	11,156	-	112,431
Additions	536	5,042	2,419	-	7,997
Disposals	(2,013)	(1,922)	(905)	-	(4,840)
At December 31, 2001	15,588	87,330	12,670	-	115,588
Net book value at December 31, 2001	8,711	40,519	9,596	3,851	62,677

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

Payments for rent of satellite channels in the amount of 1,757 were included in the carrying value of cable and transmission devices as of December 31, 2001. The Company uses composite depreciation method to amortize the prepaid satellite channels.

During 2002 the Company formalized a plan to discontinue using these satellite channels beginning from February 2003. The Company has accordingly revised its estimate of the remaining period of use of the satellite channels. Additional depreciation expense of 897 was recognized in the accompanying consolidated financial statements. The carrying amount of prepaid rent as of December 31, 2002 was 210. Amounts receivable from the lessor for partial return of prepayments of 545 are included in other non-current assets (356) and other accounts receivable (189) (refer to Note 12). Non-current portion of amounts receivable was discounted using discount rates of 18% for Ruble denominated amounts and 3% for US Dollar denominated amounts.

Capitalized interest amounting to 57, 92 and 315 for the years ended December 31, 2002, 2001 and 2000, respectively, is included in property, plant and equipment additions.

Property, plant and equipment with a carrying value of 9,117 (2001: 15,097) has been pledged in relation to loan agreements entered into by the Group (refer to Note 18).

7. SUBSIDIARIES

The accompanying consolidated financial statements include the assets, liabilities and results of operations of Rostelecom and the following of its subsidiaries:

Subsidiary	Country of registration	Effective share of the Group as of December 31, 2002
OAO RTC-Leasing (“RTC-Leasing”)	Russia	32.27%
RosTelecomLeasing S.A. (“RTCL S.A.”)	Switzerland	32.27%
RosTelecomLeasing Cyprus (“RTCL Cyprus”)	Cyprus	32.27%
RTDC Holdings, Inc. (“RTDC”)	USA	32.27%
ZAO Russian Industrial Bank (“RIB”)	Russia	32.27%
ZAO Westelcom (“Westelcom”)	Russia	100%
OAO RTComm.RU (“RTComm.RU”)	Russia	37.91%
ZAO AKOS (“AKOS”)	Russia	29.68%

As of December 31, 2001 and 2002 the Company owned 27% of the voting shares of RTC-Leasing. The principal activity of RTC-Leasing is the leasing of equipment to telecommunications companies in Russia. The principal counterparty as lessee to finance leases entered into by RTC-Leasing is Rostelecom. In the accompanying consolidated financial statements finance lease transactions between RTC-Leasing and Rostelecom and other companies of the Group have been eliminated.

During 2001, RTC-Leasing purchased for a cash payment of 201 10% of its ordinary shares from shareholders other than Rostelecom and held them in treasury as of 31 December 2001. As a result of this transaction the Group’s effective share in RTC-Leasing increased to 30%.

In 2001 RTC-Leasing issued 10,000 preferred shares with a par value of 10 Rubles each and sold them at par to individuals, which were related parties to RTC-Leasing. No future service was required from the holders of the preferred shares. Preferred shares issued carried dividends amounting to the higher of 10% of the net income after taxation as disclosed in the Russian statutory accounts of RTC-Leasing and the dividends payable on ordinary shares. In connection with the issuance, in 2001 the Group recognized 279 as compensation expense and recorded it in wages, salaries, other benefits and payroll taxes in the consolidated statement of operations. In 2002, RTC-Leasing declared and paid preferred dividends in the amount of 109.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

In December 2002 the Board of Directors of RTC-Leasing approved a purchase of preferred shares. The purchase price of 191 was paid to the holders of preferred shares in December 2002. As of June 6, 2003 preferred shares are not cancelled. As a result of dividend payment and redemption of the preferred shares the holders of the preferred shares received additional compensation of 21, the share of the Group in which amounting to 6 was included in wages, salaries, other benefits and payroll taxes in 2002.

In February 2002 RTC-Leasing issued and sold additional 3,964,714 ordinary shares at par value of 10 Rubles per share. The Company retained its interest in voting stock of RTC-Leasing of 27% by purchasing the respective part of issued shares.

The additional issuance was made in accordance with trilateral agreement (“Agreement”) between Rostelecom and non-state pension fund “Rostelecom-Garantiya” (“Initial shareholders”), from one side, RTC-Leasing from the other side, and a consortium of the shareholders (“Consortium”), from the third side. The Agreement called for certain actions aimed to increase capitalization of RTC-Leasing.

Immediately after the issuance the following companies were owners of ordinary shares of RTC-Leasing:

	% of ordinary shares
Rostelecom	27.13
Non-state pension fund “Rostelecom-Garantiya”	3.03
CB “Severo-Zapadniy Telecombank”	18.91
Non-commercial partnership “The Telecommunications Development Research Center”	2.82
Treasury shares on the balance sheet of RTC-Leasing	0.48
ZAO “Gamma-Invest”	15.93
ZAO “KFP-Finance”	15.77
RIB	15.93
Total ordinary shares	**100**

Shares owned by RIB are treated as treasury shares (see below details of RIB acquisition). Accordingly, the Group’s effective share in RTC-Leasing increased to 32.27%. The purchase of minority interest was accounted for using the purchase method. Negative goodwill of 74 was recognized in relation to this transaction and included in negative goodwill, net of current portion, in the accompanying consolidated balance sheet as of December 31, 2002.

The management of the Company believes that it continues to exercise control over the management, policies and day-to-day operations of RTC-Leasing. Finance income from leases generated by the Company forms the major part of overall revenues of RTC-Leasing. The Company guarantees significant amounts of debt of RTC-Leasing and has a right to appoint the majority of the Board of directors of RTC-Leasing. Therefore the Company continues to consolidate the results of operations and financial position of RTC-Leasing.

Under the Agreement the control over RTC-Leasing was planned to pass to the Consortium after of the latter performs certain actions intended to increase capitalization and investing attractiveness of RTC-Leasing. The Agreement defined in general the obligations of the Consortium. The Consortium was to expand customer base of RTC-Leasing, to develop new lease contracts for the amount of US$ 330 million, to facilitate financing and increase effectiveness of the business of RTC-Leasing.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

To define specific obligations of the Consortium the parties re-negotiated the terms of the original Agreement and signed in May 2003 an additional agreement which stipulated that the Consortium is obliged to perform certain actions which should result in:

- Decreasing the Company's liabilities to RTC-Leasing in the amount not less than 1,800 within 6 months period;
- Selling shares of RTC-Leasing owned by Rostelecom and non-state pension fund "Rostelecom-Garantiya" for total amount of proceeds not to be less than 750 within 6 months period;
- Cancellation of all guarantees and pledges provided by Rostelecom in respect of loans payable by RTC-Leasing within 12 months period.

As of December 31, 2002, the Consortium had not provided any of the services under the Agreement. As of December 31, 2002 none of the shares issued to the Consortium were vested. The Group plans to recognize stock-based expense in connection with the Agreement as services are provided. As of December 31, 2002, the Group has not recognized stock-based compensation expense in connection with the Agreement.

RTCL S.A. is a 100% subsidiary of RTC-Leasing established in 2000 under legislation of Switzerland. The company was established with the purpose to develop leasing activities of RTC-Leasing, maintain relationships with foreign vendors and fundraising activities. The results of operations and net assets of RTCL S.A. are consolidated by the Group from January 1, 2002, since in prior years the results of operations and net assets of RTCL S.A. were not material.

In April 2002 RTCL S.A. acquired from AT&T for a cash payment of USD 33 million (1,117 at the exchange rate at date of transaction) 94.9% of ordinary shares in telecommunications holding company RTDC and all rights under the loan receivable from RTDC of USD 48 million (1,615 at the exchange rate at date of transaction). RTDC has significant investments in a number of Russian cellular telecommunications companies which depending on the intentions of management were accounted for as investments in associates (refer to Note 8) or investments available-for-sale (refer to Note 13). The acquisition was accounted for as business combination using the purchase method.

In October 2002 RTCL S.A. purchased the remaining 5.1% shares of RTDC for a cash payment of USD 1.3 million (43 at the exchange rate at date of transaction) from International Finance Corporation. After this purchase the Group owned 100% of voting shares of RTDC. This transaction was accounted for as purchase of minority interest using the purchase method. The results of operations and financial position of RTDC were consolidated by the Group in the accompanying financial statements beginning from April 2002.

At the date of acquisition in April 2002, RTDC owned 50% of ordinary shares of Westelcom, which main activity is provision of international traffic transition services. Rostelecom owned remaining 50% of ordinary shares, which was treated as an investment in associate using the equity method of accounting. Therefore, in April 2002 the Group obtained control over financial and operating policies of Westelcom. Accordingly, the results of operations and financial position of Westelcom were consolidated by the Group beginning from April 2002.

For the purpose of accounting for acquisition the purchase price was split as follows

Amount attributable to acquisition of RTDC	839
Amount attributable to acquisition of Westelcom	278
Total purchase price	**1,117**

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

At the date of acquisition RTDC owned 92% of ordinary shares of AKOS, whose main activity constitutes provision of cellular services in Primorskiy region of Russia. The acquisition was accounted for using the purchase method. Accordingly, the results of operations and financial position of AKOS were consolidated by the Group beginning from April 2002.

The excess of fair value of the acquired identifiable net assets of RTDC and AKOS over contribution paid (negative goodwill) was identified as follows:

	Acquisition of 94.9% of shares of RTDC	**Purchase of minority interest in RTDC**	**Total**
Purchase price	839	43	882
Transaction cost	1	-	1
Total consideration	**840**	**43**	**883**
Fair value of identifiable assets and liabilities:			
Property, plant and equipment	43	37	
Long-term investments	2,063	1,163	
Other non-current assets	1	13	
Accounts receivable	117	108	
Cash	9	34	
Other current assets	33	98	
Short-term liabilities	(436)	(197)	
Long-term liabilities	(1,899)	(101)	
Total net assets (liabilities)	**(69)**	**1,155**	
Share of the Group in net assets (liabilities) acquired	94.9%	5.1%	
Fair value of acquired share of identifiable net assets (liabilities)	(69)	59	(10)
Indebtedness of RTDC acquired	1,615	-	1,615
Negative goodwill	(706)	(16)	(722)
Amortization of negative goodwill from the date of acquisition to December 31, 2002	85	-	85
Net book value of negative goodwill at December 31, 2002	**(621)**	**(16)**	**(637)**

RTComm.RU was established in 2000. Initially, RTC-Leasing owned 100% of ordinary shares of RTComm.RU. As of December 31, 2002 RTC-Leasing and Rostelecom owned 40% and 25% of voting shares of RTComm.RU, respectively. The main activity of RTComm.RU is provision of Internet access services to enterprises and people. The accompanying consolidated financial statements include assets and liabilities of RTComm.RU as of December 31, 2002 and results of its operations beginning from January 1, 2002. Net assets and results of operations of RTComm.RU in earlier periods were not significant.

In October 2002, Rostelecom purchased 50% of ordinary shares of Westelcom from RTDC for a cash payment of USD 15 million (489 at the exchange rate at date of transaction). Management expects significant synergies from obtaining control over the core assets of Westelcom. This transaction was accounted for as purchase of minority interest using the purchase method. The share of the Company in net assets of Westelcom became equal to 100% after completion of this purchase.

In March 2002 RTC-Leasing acquired 80% of ordinary shares of ZAO Russian Industrial Bank ("RIB") for a cash payment of 93. Acquisition was accounted for using the purchase method. Accordingly, the results of operations and financial position of RIB were consolidated by the Group beginning from March 2002. In July 2002 RTC-Leasing acquired remaining 20% for 11. This transaction was accounted for as purchase of minority interest using the purchase method. The purpose of the acquisition was diversification of activities and expanding the range of services provided by RTC-Leasing to its customers.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

The purchase price allocation to acquired identifiable net assets of Westelcom and RIB was calculated as follows:

	Acquisition of 50% of Westelcom	Acquisition of minority interest in Westelcom from minority shareholders of RTC-Leasing	Acquisition of 80% of RIB	Acquisition of minority interest in RIB	Total
Purchase price	278	330	93	11	712
Pre-acquisition share in Westelcom	553	-	-	-	553
Total consideration	**831**	**330**	**93**	**11**	**1,265**
Fair value of identifiable assets and liabilities (*):					
Property, plant and equipment	852	587	4	4	
Long-term investments	131	178	-	-	
Other non-current assets	-	-	10	11	
Accounts receivable	139	124	-	-	
Cash	28	8	1,047	749	
Other current assets	35	21	958	1,006	
Short-term liabilities	(171)	(73)	(1,943)	(1,698)	
Long-term liabilities	(60)	(20)	-	-	
Total net assets	**954**	**825**	**76**	**72**	
Share of the Group in net assets acquired	100%	23%	80%	20%	
Fair value of acquired share of identifiable net assets	954	194	61	14	1,223
Goodwill	(123)	136	32	(3)	42
Amortization of goodwill from the date of acquisition to December 31, 2002	8	(4)	(8)	1	(3)
Net book value of goodwill at December 31, 2002	**(115)**	**132**	**24**	**(2)**	**39**

(*) – Except for a case of acquisition of 50% of Westelcom, in which identifiable assets and liabilities were measured at the aggregate of fair values to the extent of the Group's interest acquired in a business combination (50%), and the Company's share in the pre-acquisition carrying amounts (50%).

The share of minority in the amount of cash paid by Rostelecom to RTDC for shares of Westelcom was used as purchase price for the purposes of accounting for goodwill in acquisition of minority interest in Westelcom.

Below is the unaudited pro forma information, which has been prepared as if all 2002 business combinations had occurred on January 1, 2001:

	2002 (Unaudited)	2001 (Unaudited)
Total assets	79,167	83,472
Total revenue	28,169	30,387
Net income	657	4,357
Earnings per share (Rubles)	0.58	5.81

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

8. INVESTMENTS IN ASSOCIATES

Movements in investments in associates during the years ended December 31, 2002 and 2001 were as follows:

	2002	2001
Beginning of year	1,239	3,029
Additions, net of dividends received	2,026	4
Share in results before income taxes	11	(35)
Share of income taxes (Note 24)	(23)	(161)
Decrease due to consolidation of Westelcom	(618)	-
Reclassification of investments in EDN Sovintel and OAO Giprosvyaz (Note 13)	-	(1,598)
End of year	**2,635**	**1,239**

Total income /(loss) from associates in the consolidated statements of operations is composed as follows:

	2002	2001
Share in income (loss) of associates included in movements in investments in associates	11	(35)
Share in income of EDN Sovintel from 1 January 2002 through the date of disposal (Note 13)	382	-
Total income /(loss) from associates	**393**	**(35)**

Total share in income taxes of associates in the consolidated statements of operations is composed as follows:

	2002	2001
Share in income taxes of associates included in movements in investments in associates	23	161
Share in income taxes of EDN Sovintel from 1 January 2002 through the date of disposal (Note 13)	110	-
Total share in income taxes of associates	**133**	**161**

Investments in associates as of December 31, 2002 and 2001 were as follows:

		Voting share capital. %	2002 Carrying amount	2001 Carrying amount
Westelcom	Telecommunication services	100 (2001: 50)	-	618
Telmos	Telecommunication services	20	226	199
Moscow cellular Communications (“MCC”)	Mobile telecommunications	45.5 (2001: 23.5)	145	107
Delta Telecom	Mobile telecommunications	42.5	161	-
Uralwestcom	Mobile telecommunications	49	67	-
Golden Telecom, Inc., USA (refer to Note 13)	Telecommunication services	15	1,874	-
GlobalTel	Satellite telecommunications	51	-	-
Other	Various		162	315
Total investment in associates			**2,635**	**1,239**

All associates except for specially mentioned otherwise are registered in the Russian Federation.

In April 2002 the Group obtained control over Westelcom (Note 7), therefore the Group ceased to account for Westelcom using the equity method.

The Group owns 45.5% of shares of MCC, of which Rostelecom owns 23.5% and RTDC owns 22%. In 2001 the Group assessed the recoverable amount of its investment in MCC and determined that it was below its carrying amount. Impairment loss of 334 was recognized in 2001 and included in gain /(loss) from associates in the accompanying consolidated statement of operations. As of December 31, 2002 the Group determined that recoverable amount of investment in MCC increased due to beginning of CDMA network development. As of December 31, 2002 the Group reversed impairment loss of 55 recognized in prior period and included this amount in gain /(loss) from associates.

The Group owns 51 per cent of the ordinary shares of GlobalTel, a Russian closed joint stock company. GlobalTel was created in 1996 to provide access to a US-based global mobile satellite telephone network. Since the time of its launch, the global satellite network has experienced technical problems and low subscriber interest, as the result of which GlobalTel has only recently developed its operations beyond the development stage. The US owner of the satellite network also owns the remaining 49 per cent of GlobalTel. The charter of GlobalTel, its by-laws and the way GlobalTel historically conducted its operations provide for substantive participation of both shareholders in the economic activities of GlobalTel. The minority shareholder has effective veto rights that would prevent the Group from causing GlobalTel to take an action that is significant in the ordinary cause of its business. Because effective control of GlobalTel does not rest with the Group, management accounts for the investment in GlobalTel under the equity method. The Group recognized equity in net losses of GlobalTel of 467 and 302 in 2001 and 2000, respectively. The Group did not recognize its share in losses of GlobalTel in 2002 as the accumulated share in losses of GlobalTel exceeded the investment of the Group in GlobalTel. Loans and other accounts receivable from GlobalTel are written off. Any receipts from GlobalTel are recognized as income in the period they are received.

Investments in Delta Telecom and Uralwestcom were acquired as a result of the acquisition of RTDC by RTC-Leasing in 2002 (refer to Note 7).

The carrying amount of investments in associates in the accompanying consolidated financial statements is equal to the Group's share of underlying equity in the net assets of investee companies, except for investments in Golden Telecom, Inc. ("Golden Telecom"). The initial investment in Golden Telecom was valued at its market value (refer to Note 13). All associates have a December 31 balance sheet date.

Accounting policies of associates may not comply with accounting policies used by the Group in preparation of the accompanying consolidated financial statements. In the opinion of management, differences in accounting policies of associates do not materially affect the identification of the Group's share in income of associates.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

9. LONG-TERM FINANCIAL INVESTMENTS

Long-term financial investments as of December 31, 2002 comprised the following:

	2002
Loans provided to associates and other companies	204
Loans provided to customers	69
Notes receivable	165
Other long-term financial investments	140
Total long-term financial investments	**578**

Loans provided to associates and other companies include loans provided by the Group to Uralwestcom (refer to Note 8) of 31.

Loans provided to customers represent loans provided by RIB to Russian companies, mainly telecommunication and industrial, and to individuals.

Other long-term financial investments include investment in Volga Telecom. As of December 31, 2002 these investments are stated at fair value.

10. GOODWILL AND NEGATIVE GOODWILL

Goodwill was recognized in connection with acquisition of Westelcom and RIB and represents the excess of the purchase price paid over the fair value of identifiable net assets acquired.

Negative goodwill resulted from acquisition of the interest in RTDC and changes in ownership interest in RTC-Leasing and represents the excess of the fair value of the net identifiable assets acquired over the purchase consideration paid.

Goodwill and negative goodwill are amortized using straight-line method over periods ranging from 3 to 10 years.

Portion of negative goodwill related to investments in associates classified as available-for-sale shall be amortized to income when the underlying investments are sold. In the opinion of the Group's management this method better reflects the economic nature of the respective negative goodwill (refer to Note 13). This respective portion was determined pro-rata to relative fair values of such investments in the fair value of acquired identifiable net assets of RTDC and is included as of December 31, 2002 in the current portion of negative goodwill in the following amounts:

	2002
NCC	(228)
Eniseytelecom	(117)
Baykalwestcom	(110)
Other assets	(16)
Total	**(471)**

Amortization of goodwill and negative goodwill is included in administration and other cost, except for amortization of negative goodwill related to available-for-sale investments, which is included in income from sale of investments in the consolidated statements of operations.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

11. LEASE RECEIVABLES

As discussed in Note 7, the principal activity of RTC-Leasing is the leasing of equipment to telecommunication companies. In prior years, the Company was a principal lessee of such equipment. During 2002 RTC-Leasing concluded significant number of new agreements with companies, other than Rostelecom, including Russian regional telecommunication companies of Svyazinvest Group (see also Note 28) as well as non-related entities.

As of December 31, 2002 and 2001 lease receivables comprised of the following:

	2002	2001
Gross investment in leases	4,200	638
Less: unearned finance lease income	(1,508)	(220)
Net investment in leases	2,692	418
Equipment purchased for leasing purposes	1,303	258
Total lease receivables	**3,995**	**676**
Including:		
Non-current portion of lease receivables	2,713	676
Current portion of lease receivables	**1,282**	**-**

Current portion of lease receivables is included in Accounts receivable in the accompanying balance sheet (see also Note 12).

The table below provides the maturity profile of the future minimum lease payments as of December 31, 2002:

	Less than 1 year	1-5 years	Total
Gross investment in leases	1,515	2,685	4,200

12. ACCOUNTS RECEIVABLE, NET

Accounts receivable as of December 31, 2002 and 2001 comprised the following:

	2002	2001
Trade accounts receivable	7,192	8,336
Less: allowance for doubtful accounts	(2,214)	(1,825)
Trade accounts receivable, net	4,978	6,511
Prepayments	218	563
Prepaid taxes	1,447	505
Current portion of lease receivables	1,282	-
Other accounts receivable	921	954
Less: allowance for doubtful accounts	(229)	-
Other accounts receivable, net	3,639	2,022
	8,617	**8,533**

Trade accounts receivable, net of allowances for doubtful accounts, include amounts totaling 1,027 (2001: 1,586) due from foreign telecommunications operators which are denominated in foreign currencies, principally represented by Special Drawing Rights (“SDR”) and US dollars, and amounts totaling 2,685 (2001: 3,086) due from local telephone operators. As of December 31, 2002 and 2001 the carrying value of trade accounts receivable was equal to their fair value.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

The following table summarizes the changes in the allowance for doubtful accounts for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Balance, beginning of year	1,825	2,201	2,781
Impact of inflation on opening balance	(240)	(348)	(466)
Provision for / (recovery of) doubtful accounts	863	(28)	361
Accounts receivable written-off	(5)	-	(475)
Balance, end of year	**2,443**	**1,825**	**2,201**

13. SHORT-TERM INVESTMENTS

Short-term investments include investments available-for-sale, which are stated at fair value (except for investment in EDN Sovintel, which was accounted for using the equity method). Short-term investments comprised the following as of December 31, 2002 and 2001:

	2002	2001
EDN Sovintel (Note 8)	-	1,493
OAO Giprosvyaz (Note 8)	-	105
Baykalwestcom	410	-
Eniseytelecom	420	-
NCC	802	-
VEB bonds (USD denominated)	197	172
Eurobonds (USD denominated)	127	-
Liquid bills of exchange	2,085	1,317
Bonds of the Group of OAO “Svyazinvest” (Ruble denominated)	69	-
Other corporate securities (Ruble denominated)	51	-
Other	414	151
Total short-term investments	**4,575**	**3,238**

Fair value of investments, which are traded on active markets, is based on the market quotes for such investments. Fair value of investments, which are not traded on active market, is based on estimated discounted future cash flows. The discount rate is identified individually for each company and is based on the weighted average cost of capital.

Transactions with financial instruments are recognized using settlement date accounting. Assets are recognized on the day they are transferred to the Group and derecognized on the day that they are transferred by the Group.

Income from sale of investments during the year ended December 31, 2002 was as follows:

Income from sale of investment in Sovintel	1,733
Income from sale of investment in Dontelecom	116
Loss from sale of other investments	(9)
Total income from sale of investments	**1,840**

In September 2002 the Company completed a sale of its 50% interest in Sovintel to Golden Telecom Inc. Purchase consideration paid by Golden Telecom comprised of cash of US$ 10 million (335 at the exchange rate as of the date of transaction), no-interest bearing US$ 46 million promissory note (1,527 at the exchange rate as of the date of transaction) settled in full amount in December 2002 and 4,024,067 ordinary shares of Golden Telecom (1,786 at average market quotes at the transaction date). Ordinary shares of Golden Telecom were valued at the average of NASDAQ closing quotes two days before and after the measurement date, which was determined to be September 5, 2002. Transaction costs amounted to 172. In connection with this sale the Company recognized a gain of 1,733, which was included in income from sale of investments in the consolidated statement of operations. In November 2002 two representatives of Rostelecom have been elected to the Board of Directors of Golden Telecom.

Management believes that the Group has the ability to exercise significant influence on the financial and operating activities of Golden Telecom, through representation on its Board of Directors. Therefore, investments into Golden Telecom are accounted for using the equity method.

The excess of purchase price paid for shares of Golden Telecom over the fair value of identifiable net assets acquired in amount of 762 was identified and shall be amortized over the period of 8 years. Amortisation charge of 32 is included in gain /(loss) from associates (excluding income tax) in the year ended December 31, 2002. The remaining part of 730 is included in carrying amount of investment in Golden Telecom as of December 31, 2002.

In May 2002 the Company sold for 105 its 22% interest in the voting capital of OAO Giprosvyaz to one of the companies of the Group of OAO “Svyazinvest”.

In September 2002 the Group sold for 246 its 33.3% interest in ordinary shares of Dontelecom, an entity acquired owned by RTDC, to unrelated party. Income from the transaction amounted to 116 and was included in income from sale of long-term investments in the consolidated statement of operations.

Investments in Baykalwestcom (49% of voting shares), Eniseytelecom (49% of voting shares) and NCC (50% of voting shares) were acquired by the Group as part of the acquisition of RTDC (Note 7) and were targeted to be sold in the near future to the companies within the Group of OAO “Svyazinvest” (refer to Note 33).

Vnesheconombank (VEB) bonds are bearer securities guaranteed by the Ministry of Finance of Russia, and are commonly referred to as “MinFin Bond”. The bonds carry an annual coupon interest rate of 3%. Vnesheconombank bonds are stated at market value based on quotations obtained from the over the counter market.

The Group invests temporarily available funds in bills of exchange issued by various Russian companies maturing within 12 months after the balance sheet date or with no fixed maturity, which the Group plans to sell during one year. The bills of exchange bear interest in the range from 5.5% to 17.5% and are denominated in Rubles, as well as in foreign currencies. The Group uses bills of exchange as a financial instrument primarily for the purpose of receiving financial income.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2002 and 2001 included cash on hand and in bank accounts as follows:

	2002	2001
Cash on hand	19	2
Cash at bank – Rubles	227	899
Cash at bank – Foreign currencies	572	413
Short term deposits – Rubles	1,447	617
– Foreign currencies	96	277
Current account with the Central Bank of Russia	433	-
Obligatory reserves with the Central Bank of Russia	171	-
Time deposit with the Central bank of Russia	355	-
Letters of credit	322	14
	3,642	**2,222**

Cash at bank in foreign currencies includes amounts of 120 (2001: 261) held in escrow accounts on behalf of providers of loans to the Company.

15. SHAREHOLDERS' EQUITY

Share capital

The authorized share capital of the Company as of December 31, 2002 and 2001 comprised 1,634,026,541 ordinary and 242,832,000 non-redeemable preferred shares. The par value of both ordinary and preferred shares amounted to Rbl 0.0025.

As of December 31, 2002 and 2001 the issued and outstanding share capital was as follows:

	Number of Shares	Nominal Value	Indexed Value
Ordinary Shares, Rbl 0.0025 par value	728,696,320	1.822	75
Preferred Shares, Rbl 0.0025 par value	242,831,469	0.607	25
Total	**971,527,789**	**2.429**	**100**

There were no share transactions during 2002 and 2001.

The Board of Directors of Rostelecom is authorized under its Charter to issue additional ordinary shares up to the total of the authorized share capital without further shareholder approval.

The share capital of the Company on its incorporation has been indexed, to account for the effects of inflation from that date. The share capital in the Russian statutory accounts at December 31, 2002 and 2001 amounted to 2,428,819 nominal Rubles.

Ordinary shares carry voting rights with no guarantee of dividends.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

Distributions

Preferred shares have priority over ordinary shares in the event of liquidation but carry no voting rights except on resolutions regarding liquidation or reorganization of the Company, changes to dividend levels of preferred shares, or the issuance of additional preferred stock. Such resolutions require two-thirds approval of preferred shareholders. The preferred shares have no rights of redemption or conversion.

Preferred shares carry dividends amounting to the higher of 10% of the net income after taxation of the Company as disclosed in the Russian statutory accounts divided by the number of preferred shares and the dividends paid on one ordinary share. Owners of preferred shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay part only) dividends on preferred shares has been taken.

In a case of liquidation, the property remaining after settlement with creditors, payment of preferred dividends and redemption of the par value of preferred shares is distributed among preferred and ordinary shareholders proportionately to number of owned shares.

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by statutory accounting rules. Statutory retained earnings of the Company as of December 31, 2002 and 2001 amounted to 6,797 and 4,376, respectively.

Treasury Shares

In accordance with the Company's Charter, Rostelecom is permitted to repurchase, on the open market, ordinary and preferred shares as long as 90% of the nominal value of its issued Charter Capital remains in circulation. Repurchased shares must either be sold or cancelled within one year of being purchased.

Dividends

Dividends payable to holders of preferred and ordinary shares in respect of the years ending December 31, 2001 and 2000 were as follows:

	2001	**2000**
Proposed dividend – preferred shares	235	124
Proposed dividend – ordinary shares	164	145
	399	**269**

	Rbl	**Rbl**
Proposed dividend per preferred share	0.96	0.52
Proposed dividend per ordinary share	0.22	0.20

In April 2003, the Board of directors of the Company proposed the dividends in respect of 2002. Ordinary shares dividends amounted to 0.54 Ruble per share (396) and dividends on the preferred shares amounted to 1.27 Ruble per share (310). The accompanying consolidated financial statements do not reflect the dividend payable in respect of 2002, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending December 31, 2003.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

16. MINORITY INTEREST

	2002	2001
At beginning of year	1,929	1,530
Minority interest in net assets of acquired subsidiaries	224	-
Minority interest in net income of subsidiaries	1,071	322
Dividends paid to minority shareholders of subsidiaries	(129)	279
Purchase of minority interest	(79)	(202)
Re-purchase of own preferred shares by subsidiary	(191)	-
At the end of year	**2,825**	**1,929**

17. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of December 31, 2002 and 2001:

	2002	2001
Trade accounts payable	3,114	3,364
Accrued expenses	1,865	2,179
Compensation related accruals	135	238
Notes payable	-	58
Dividends payable	48	23
	5,162	**5,862**

Trade accounts payable include amounts totaling 1,832, which are denominated in foreign currencies, principally represented by Special Drawing Rights and United States dollars (2001: 2,197).

18. INTEREST BEARING LOANS

The interest bearing loans as of December 31, 2002 and 2001 were as follows:

	2002	2001
Maturity		
Current portion of interest bearing loans	4,529	6,709
Between one to two years	919	797
Between two to three years	641	294
Between three to four years	479	-
Between four to five years	278	-
Greater than five years	-	-
Non-current portion of interest bearing loans	2,317	1,091
Total interest bearing loans	**6,846**	**7,800**

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

As of December 31, 2002 and 2001 interest bearing loans, which are mostly denominated in foreign currencies are summarized as follows:

	Note	2002	2001
US Dollars (US$)	(a)	826	2,183
German Marks (DM)		-	114
Japanese Yen (JPY)	(b)	3,089	3,163
EURO	(c)	150	1,014
Foreign currency denominated loans		4,065	6,474
Russian Ruble denominated loans	(d)	2,781	1,326
Total interest bearing loans		**6,846**	**7,800**

a) This includes the following amounts:

***Rostelecom*:**

- US$ 15.95 million, (507), on a credit agreement between Rostelecom and Sumitomo Corporation entered into in March 1997. The loan is secured by the related equipment and by cash balances deposited in designated escrow accounts, and is repayable in quarterly installments with the final payment due not later than July 2005. Interest is payable at LIBOR plus 3.2%. The purpose of the loan is financing of construction of fiber optic cable line Novosibirsk – Khabarovsk. Current portion is 263.

RTC-Leasing:

- US$ 1.4 million (46) within a credit line provided by ING Bank (Eurasia) with maximum amount of USD 4.3 million. Maturity date is October 12, 2003. Interest rate equals LIBOR multiplied by 365/360 plus 6% p.a. The loan is secured by a guarantee of Rostelecom. Also, the Group pledged its telecommunication equipment leased out to Rostelecom. The entire balance relates to current portion.

- US$ 2.9 million (93) within a credit line provided by ING Bank (Eurasia) with maximum amount of USD 10 million. Maturity date is March 31, 2004. Interest rate equals 15% p.a. The loan is secured by a guarantee of Rostelecom. 81 relates to current portion.

- US$ 1.6 million (52) within a credit line provided by Russian Commercial Bank, Zurich, Switzerland, with maximum amount of USD 1.9 million. Maturity date is March 21, 2005. Interest rate equals LIBOR/0.95 plus 6.316% p.a. 21 relates to current portion.

- US$ 3.1 million (98) within a credit line provided by Vneshtorgbank with maximum amount of USD 4.1 million. Maturity date is July 6, 2004. Interest rate equals LIBOR plus 8% p.a. The loan is secured by a guarantee of OAO MGTS. 49 relates to current portion.

- US$ 0.9 million (29) on a credit line agreement for JPY 259 million with ING Bank Eurasia open to August 2004. Annual interest rate equals LIBOR plus 3.5%. The loan is guaranteed by Rostelecom. 17 relates to current portion.

b) This includes the following amounts

Rostelecom:

- JPY 11,601 million, (3,089), on a credit agreement between Rostelecom and Vnesheconombank entered into in 1994. It was repayable in equal annual installments of JPY 2,105 million, with a final payment due not later than October 2001. The Government decree provides for the possibility of a restructuring of Government's debts administered by Vnesheconombank over a 10-year period at an interest rate of 3% per annum. In accordance with the provisions of the decree, in 2001 the Group entered in negotiations with respect to restructuring this credit agreement on said terms. As of December 31, 2002 and 2001 the Group was in technical default on payments of principal and interest. In 2002 the Group repaid several other loans totaling 1,909 which contained cross default provisions and therefore were also technically defaulted. As of December 31, 2002 the Group does not have loans which contain cross default provisions. In 2003, the Ministry of Finance of the Russian Federation rejected the restructuring. As of June 6, 2003, the Group restructured this credit agreement (refer to Note 33). The entire amount of the loan was classified as current obligation.

c) This includes the following amounts

Rostelecom:

- EURO 1.85 million, (61), on a credit agreement between Rostelecom and Vnesheconombank entered into in June 1995. It is repayable in semi-annual installments of EURO 0.46 million each with a final payment due not later than August 2004. The loan is taken for the purchase of EWSD automatic switches. The loan is secured by guarantee of Government of Russia. 33 relates to current portion.

- EURO 0.3 million, (11), on a credit agreement between Rostelecom and Vnesheconombank entered into in March 1996. It is repayable in semi-annual installments of EURO 0.3 million each with a final payment due not later than February 2003. The loan is taken for the purchase of communication equipment. The loan is secured by the guarantee of the Government of the Russian Federation. In February 2003 the Company repaid the loan. 11 relates to current portion.

RTC-Leasing:

- A loan of EURO 2.9 million (96) provided by ING Bank (Eurasia) under financing agreement secured by assignment of monetary claim. Maturity date is April 30, 2003. Interest rate equals EURIBOR plus 5% p.a. 96 represents current portion. In April 2003 the loan was repaid.

d) This includes the following amounts:

Rostelecom:

- 50 on a credit agreement between Rostelecom and Sberbank entered into in April 1999. It is secured by the equipment and repayable in quarterly installments on principal and monthly installments on interest with the final payment on April 2002. Interest is payable at 20%. The loan was taken for the purchase of telecommunication equipment. In March 2002, the loan was restructured to allow equal principal repayments through December 2003, beginning July 2002. In March 2003 an interest rate was reduced to 16%.

RTC-Leasing:

- 70 on a credit line provided by Sberbank with maximum amount of USD 30 million (953) maturing on January 20, 2003. The interest rate equals 20% p.a. The loan is secured by a guarantee of Rostelecom. The loan is denominated in rubles at the exchange rate as of the date when corresponding portion of the loan is received. 70 relates to current portion. In January 2003, the loan was fully repaid.
- 98 on a credit line provided by Sberbank with maximum amount of USD 35 million (1,112) maturing on February 10, 2003. The interest rate equals 20% p.a. The loan is secured by a guarantee of Rostelecom. Also, the Group pledged its telecommunication equipment leased out to Rostelecom. The loan is denominated in rubles at the exchange rate as of the date when corresponding portion of the loan is received. 98 relates to current portion. In February 2003, the loan was fully repaid.
- 764 on a credit line provided by Sberbank with maximum amount of USD 30.3 million (963) maturing on August 12, 2006. The interest rate equals 20% p.a. The loan is denominated in rubles at the exchange rate as of the date when corresponding portion of the loan is received. The Group pledged its telecommunication equipment leased out to Megafon. The balance amounted 218 represents current portion.
- 152 on a credit line provided by Sberbank with maximum amount of 152 million rubles maturing on April 14, 2003. The interest rate equals 18% p.a. The Group pledged its telecommunication equipment leased out to Rostelecom. The balance amounted 152 represents current portion. In April 2003, the loan was fully repaid.
- 66 on a credit line provided by Sberbank with maximum amount of 66 million rubles maturing in October 2003. The interest rate equals 18% p.a. The Group pledged its telecommunication equipment leased out to Rostelecom. 66 relates to current portion.
- 287 on a credit line provided by Sberbank with maximum amount of 489 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to Uralsvyazinform. 34 relates to current portion.
- 226 on a credit line provided by Sberbank with maximum amount of 314 maturing on August 7, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to Southern Telecommunication Company. 27 relates to current portion.
- 307 on a credit line provided by Sberbank with maximum amount of 583 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to CenterTelecom. 36 relates to current portion.
- 56 on a credit line provided by Sberbank with maximum amount of 540 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to Severo-Zapadniy Telecom. 7 relates to current portion.
- 260 on a credit line provided by Sberbank with maximum amount of 631 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to VolgaTelecom. 31 relates to current portion.
- 90 on a credit line provided by Sberbank with maximum amount of 309 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to Dalsvyaz. 11 relates to current portion.
- 347 on a credit line provided by Sberbank with maximum amount of 1,090 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to Sibirtelecom. 41 relates to current portion.

Other loans of the Group, all Ruble denominated, amount to 8.

As of December 31, 2002 and 2001, the weighted average interest rates of loans were 11.7% and 9.4%, respectively. Under IFRS 39 “Financial Instruments: Recognition and Measurement”, loans should be reflected in the financial statement at amortized cost, i.e. the amount at which they were measured at initial recognition less principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount. The carrying amount of debts equals their amortized cost.

The Group does not utilize financial instruments to hedge against its exposure to fluctuations in interest and foreign exchange rates.

During 2002 the Group early extinguished loans payable to Telecom Italy (337) and Merrill Lynch (612) which contained cross default provisions. There was no gain or loss on these extinguishments.

During October – November 2002 the Group early extinguished the loan payable to Siemens AG of EURO 31.6 million (986). The transaction involved RTCL Cyprus and T&IB Equities (Cyprus) Limited, the subsidiary of the commercial bank Trust and Investment Bank (Russia).Gain from the transaction of 230 is included into other non-operating income, net, in the consolidated statement of operations.

19. SHORT-TERM BORROWINGS

During 2001, RTC-Leasing placed two issues of short-term bonds payable. The first issue of 500,000 bonds with par value of 1,000 Rubles each was placed and redeemed during 2001.

The second issue of 1,000,000 bonds with par value of 1,000 Rubles each was sold at par in October 2001. Interest was fixed at 23% per annum. The bonds were redeemed in October 2002.

In November 2002 RTC-Leasing issued 1,500,000 bonds with par value of 1,000 Rubles each and sold them at par. The bonds mature in November 2004 with early redemption option exercisable in November 2003, which was approved by the Board of directors of RTC-Leasing. Annual interest on bonds is 18% and 16% for the first and second years, respectively, payable semi-annually. The principal amount of the bonds of 1,485 is included in short-term borrowings in the accompanying consolidated balance sheet as of December 31, 2002.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

20. INCOME TAXES

The components of net deferred tax assets and liabilities at December 31, 2002 and 2001, and the movement during 2002, were as follows:

	December 31, 2001	Movement during the year	December 31, 2002
Tax effects of future tax deductible items (temporary differences):			
Accounts payable	892	(668)	224
Gross deferred tax asset	**892**	**(668)**	**224**
Tax effects of future tax liability items (temporary differences):			
Property, plant and equipment, net	8,624	80	8,704
Accounts receivable	896	(704)	192
Investment valuation difference	434	15	449
Leasing arrangements	1,946	(931)	1,015
Other	241	(74)	167
Gross deferred tax liability	**12,141**	**(1,614)**	**10,527**
Net deferred tax liability	**11,249**	**(946)**	**10,303**

Differences between IFRS and statutory taxation and reporting regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of these temporary differences is recorded at the rate of 24%, which became effective beginning January 1, 2002, 18%, 35% and 4.25% applicable to the Company and its subsidiaries incorporated in Russia, Switzerland, the United States of America and Cyprus, respectively.

The net movement of deferred tax assets and liabilities was as follows during the year ended December 31, 2002:

Deferred tax benefit (Note 24)	1,593
Deferred tax liabilities of acquired subsidiaries	(647)
Total movement during the year	**946**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred income tax assets and deferred income tax liabilities relate to the income taxes levied by the same fiscal authority on the same taxable entity.

Income taxes payable and receivable as of December 31, 2002 and 2001 were as follows:

	2002	2001
Income tax payable	(184)	(374)
Income tax receivable	818	144

Income taxes payable and receivable are included in taxes payable and other accounts receivable, respectively, in the accompanying consolidated balance sheets.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

21. REVENUE

Revenue comprised the following for the years ending December 31, 2002, 2001 and 2000:

	2002	2001	2000
Revenue from local operators			
Telephone – international	5,025	5,364	4,086
Telephone – national	5,895	5,016	4,673
Other income from local operators	3,096	2,957	3,497
	14,016	**13,337**	**12,256**
Revenue from subscribers			
Telephone – international	3,462	4,951	6,318
Telephone – national	3,513	3,697	4,040
Internet access	849	-	-
Cellular services	89	-	-
	7,913	**8,648**	**10,358**
Revenue from foreign operators			
Telephone	4,250	6,018	8,128
Telex, telegraph and other	622	571	830
Leased lines	228	263	902
	5,100	**6,852**	**9,860**
Other revenue	1,112	1,432	1,611
Total revenue	**28,141**	**30,269**	**34,085**

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

22. SEGMENT INFORMATION

In years prior to 2002 the Group operated in one industry segment, being the provision of intercity and international telecommunications services in the Russian Federation, since there were no banking and investing operations, leasing outside the Group was immaterial. Since 2002, the Group operates in several industry segments, as shown below:

	Telecommuni-cations	Leasing	Banking and Investing	Eliminations	Consolidated
Revenue from external customers	27,821	297	23	-	28,141
Inter-segment revenue	-	2,257	-	(2,257)	-
Total revenue	**27,821**	**2,554**	**23**	**(2,257)**	**28,141**
Segment depreciation and amortization	(9,099)	(5)	(2)	-	(9,106)
Bad debt expense	(863)	-	-	-	(863)
Segment result	1,911	2,273	(154)	(2,275)	1,755
Profit from operations	**1,911**	**2,273**	**(154)**	**(2,275)**	**1,755**
Interest expense	(2,839)	(473)	(133)	2,576	(869)
Interest income	329	-	402	(301)	430
Income from associates	418	-	49	(74)	393
Foreign exchange loss, net					(983)
Monetary gain					165
Income from sale of investments					1,840
Other non-operating income, net					556
Income tax expense	(928)	(480)	(130)	-	(1,538)
Minority interest					(1,071)
Net profit for the year					**678**
Segment assets	69,912	10,509	3,030	(7,008)	76,443
Income tax asset (current and deferred)	818	-	-	-	818
Investment in associates	2,407	-	305	(77)	2,635
Goodwill	17	-	22	-	39
Negative goodwill	-	-	(711)	-	(711)
Total assets	**73,154**	**10,509**	**2,646**	**(7,085)**	**79,224**
Segment liabilities	15,821	6,486	1,580	(7,008)	16,879
Income tax liability (current and deferred)	9,560	251	676	-	10,487
Total liabilities	**25,381**	**6,737**	**2,256**	**(7,008)**	**27,366**
Capital expenditure	2,679	16	1	-	2,696

An analysis of revenue by service type is disclosed in Note 21. A geographical analysis of revenue by the country or region of the customer for the years ending December 31, 2002, 2001 and 2000 was:

	Russia	CIS	USA	Western Europe	Eastern Europe	Others	Total
2002	23,041	2,846	403	881	240	730	28,141
2001	23,417	3,752	375	1,448	419	858	30,269
2000	24,225	3,270	799	2,232	981	2,578	34,085

Other segments' revenue is principally earned in Russia.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

The Group had no individual customers, other than the Government of the Russian Federation and its related parties (see Note 28), that accounted for greater than 10% of its revenue during the years ended December 31, 2002, 2001 and 2000.

Substantially all of the Group assets are located within the territory of the Russian Federation.

23. OTHER NON-OPERATING INCOME

Other non-operating income consisted of the following for the years ending December 31, 2002, 2001 and 2000:

	2002	**2001**	**2000**
Unrealized gain on available-for-sale investments	304	48	92
Unrealized loss on available-for-sale investments	(109)	-	-
Fair value of contributions received	103	-	-
Gain on early extinguishment of loans payable	230	-	-
Other non-operating gain, net	28	36	-
	556	**84**	**92**

In October 2002 the Company received telecommunication equipment from the company, which is not a related party, free of charge. Fair value of the equipment was estimated as equal to 103. The Group recognized fair value of the contribution received in other non-operating income, since the contribution was unconditional and the equipment could be utilized to generate future revenue.

24. INCOME TAX EXPENSE

The components of income tax expense for the years ending December 31, 2002, 2001 and 2000 were as follows:

	2002	**2001**	**2000**
Current income taxes	2,998	2,987	2,229
Deferred tax (benefit)/charge (Note 20)	(1,593)	(4,029)	2,644
Share of tax of associates (Note 8)	133	161	215
Income tax expense /(benefit)	**1,538**	**(881)**	**5,088**

The reconciliation of the theoretical amount that would arise using the Russian statutory rates (24% for 2002, 35% for 2001, and 30% for 2000) to the total actual income tax were as follows for the years ending December 31, 2002, 2001 and 2000:

	2002	**2001**	**2000**
Income tax expense at statutory rate	789	1,417	1,145
Non-temporary elements of monetary loss	1,537	3,320	3,030
Effect of change in tax rate on deferred tax balance	-	(5,000)	2,183
Tax losses utilized in the year not previously recognized as deferred tax assets	-	-	(203)
Other non-deductible expenses	689	1,802	1,050
Inflation effect on deferred tax balance at beginning of year	(1,477)	(2,420)	(2,117)
Income tax expense /(benefit)	**1,538**	**(881)**	**5,088**

Other non-deductible expenses comprise various costs that are non-deductible for Russian profits tax purposes, including certain employee costs, promotional expenditures, travel expenditures in excess of certain statutory allowances and losses on operations with certain bills of exchange.

25. EMPLOYEES

The average numbers of employees during the year was 31,729 (2001: 35,410). The Group has agreed with the Central Committee of the Telecommunications Trade Union of Russia to make payments to employees with fifteen or more years service, on retirement, amounting to no less than 2 months' salary as at the date of retirement. Further, the Company, at its discretion, makes payments to employees with less than 15 years service, on retirement, or who otherwise leave the employment of the Group. These obligations, which are unfunded, represent obligations under a defined benefit pension scheme. An accrual of 80 (2001: 149), representing the net present value of the future benefits the Group expects to pay, has been included in compensation related accruals as of December 31, 2002.

26. EARNINGS PER SHARE

In accordance with IFRS 33 "Earnings per share" the calculation of basic and diluted earnings per ordinary share is based on net profit for the period attributable to ordinary shareholders (net profit for the period less dividends on preferred shares) of 443 (2001: 4,483, 2000: (2,717)) divided by the weighted average number of ordinary shares outstanding during the year of 728,696,320, (2001: 728,696,320, 2000: 706,584,862). There are no potentially dilutive securities, therefore, diluted earnings per share equal basic earnings per share.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price. The best confirmation of fair value is market price.

For monetary assets and liabilities, the carrying amounts approximate their fair value and balance sheet items denominated in foreign currencies have been translated at appropriate period end exchange rates.

The carrying amounts of cash and cash equivalents approximate their respective fair values due to their short-term nature and negligible credit losses.

28. RELATED PARTY TRANSACTIONS

(a) The Government and OAO Svyazinvest as shareholder

As indicated in Note 1, the immediate parent company of the Group is Svyazinvest which holds 50.67% of the voting capital of the Company, and its representatives comprise a majority of the Board of Directors. The Government of the Russian Federation in turn holds 75% of the voting capital of Svyazinvest and therefore is the ultimate owner of the Group. It is a matter of Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

In the past, a number of Government statements have indicated that it is considering restructuring the telecommunications sector controlled by Svyazinvest. No action with respect to the Group has so far been taken (refer to Note 30).

(b) Interest of the Government in the telecommunications sector in the Russian Federation and the protection of that interest

Effective telecommunications and data transmission are of great importance to Russia for various reasons including economic, social, strategic and national security considerations. The Government therefore has exercised and may be expected to exercise significant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the Ministry of Communications and Information and the Anti-Monopoly Committee, has the general authority to regulate domestic tariffs, and does regulate tariffs to a limited extent. The Ministry of Communications has control over the licensing of providers of telecommunications services.

(c) Transactions with the Svyazinvest Group

The Svyazinvest Group uses the Group's network to carry traffic between its regional and other operators and to and from these regional operators, and to and from international operators.

The Group uses the regional networks of the Svyazinvest Group to complete calls and other traffic including that originating from its direct subscribers in the city of Moscow.

Tariffs for services between the Company and the Svyazinvest Group are materially affected with governmental regulation as disclosed in paragraph (b) of this note.

In 2002 the Group, acting as a lessor, entered in a number of lease agreements with companies of the Svyazinvest Group.

The amounts of revenue and costs relating to the transactions with the Svyazinvest Group were as follows:

	2002	**2001**	**2000**
Revenue	9,394	8,047	7,721
Expenses related to services provided by other network operators	(264)	(144)	(116)
Administration and other costs	(160)	-	-

In addition, Svyazinvest participates in the dividends declared in the year, commensurate with its shareholding.

The amounts of receivables and payables due from the Svyazinvest Group were as follows:

	2002	**2001**
Lease receivables – non-current portion	972	-
Lease receivables – current portion	688	-
Long-term financial investments	140	-
Short-term investments	69	-
Amounts owed to customers	(662)	-
Accounts receivable, net	1,879	976

There are no trade payables due to the Svyazinvest Group.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

(d) Transactions with the Government

Other state bodies ("Budget Organizations"), such as the Ministry of Defense and entities affiliated to the Government, primarily state controlled TV and radio companies, use the Group's network to carry communications traffic and to broadcast across the country. In some cases, the service is in the nature of leased lines for which the Group charges below market rates.

The revenues arising from these services were as follows:

	2002	2001	2000
Revenue	1,211	571	489

The amounts of receivables due from such organizations were as follows:

	2002	2001
Accounts receivable, net	563	802

There are no payables due to such organizations.

The Government also uses the Group's expertise in acquiring communications equipment for various budget organizations. No charge is levied for these services.

(e) Transactions with Investees

The Group also transacts a wide variety of business with entities and companies in which it has investments, including associates over which it exerts significant influence. Such business includes telecommunications services, leasing telecommunication equipment and the provision of pension arrangement to employees. In the opinion of the directors, such business is conducted on arms' length terms and at rates prevailing in the open market.

A summary of these transactions is as follows:

	2002	2001	2000
Lease income	-	74	28
Charges by network operators – national	(26)	(437)	(191)
Pension payments	(85)	(167)	(182)

Amounts included in the consolidated balance sheets relating to the operations with these entities were as follows:

	2002	2001
Accounts payable	(12)	(97)
Lease receivables	-	113
Accounts receivable, net	69	578
Loans receivable	60	-
Leased property, plant and equipment	-	759

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

(f) Directors' remuneration

During the year the Board of Directors consist of the following members:

Until June 1, 2002	Until December 31, 2002
Yashin V.N.	Yashin V.N.
Belov V.Y.	Belov V.Y.
Yemelianov N.P.	Yemelianov N.P.
Vasin V.S.	Kuznetsov S.I.
Lopatin A.V.	Lopatin A.V.
Osipchuk A.I.	Osipchuk A.I.
Panchenko S.N.	Panchenko S.N.
Polischuk V.A.	Polischuk V.A.
Korolev N.M.	Ragozina I.M.
Avdiyants S.P.	Slipenchuk M.V.
Finger G.M.	Finger G.M.

In 2002, the total remuneration of the directors amounted to 21 (2001: 5, 2000: 7).

29. CAPITAL COMMITMENTS

The Group's capital expenditure program approved by the Board of Directors for the year ending December 31, 2003 projects capital expenditures of 4,521.

30. CONTINGENCIES

a) Legal proceedings

The Group is subject to a number of proceedings arising in the course of the normal conduct of its business. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations or the financial position of the Company or the Group.

b) Taxation environment

Russian tax legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years. However, management believes that adequate provision has been made for all material taxation liabilities.

c) Licenses

Substantially all of Rostelecom revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years ranging from 2003 to 2007. The Company has no reason to believe that the licenses will not be renewed or that any license will be suspended or terminated. However, suspension or termination of the Company's main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Group.

It is also a matter of public record that the Government intends to promote competition within the telecommunications industry, which may include the granting of additional long distance and international licenses to other operators. At present, it is not possible to determine the effects, if any, of changes in these matters on the results of operations or financial position of the Group.

In August 1996, the Company was granted three cellular licenses for operation in Novosibirsk, Khabarovsk and Amurskaya areas. The licenses gave the Company the right to provide wireless services on the GSM 900 standard for 10 years from the date of license registration (until October 2006). The Company was obliged to make the license fee payment in total amount of $16.5 million for three licenses. No payments were made as of December 31, 2002.

The obligation would arise upon receiving a notice from the Federal Committee of GSM 900 operators. The Company has not yet received any invoices for payment. Management is confident that negotiations concerning the eventual fees due will result in significant reduction of the liability. As such, no accruals for cellular licenses have been included in the accompanying financial statements. Management believes that until such uncertainty is resolved, such non-accrual and non-payment will not have significant effect on the Company's operations.

d) Restructuring

There have been a number of announcements by the Government and the Svyazinvest Group with respect to the planned restructuring of the national telecommunications sector. In its Program of Development of the Telecommunications Industry, presented to the Federal Government in December 2000, the Ministry of Communications has indicated that it will not contemplate a change to the Group's status as monopoly supplier of long distance and international communications until 2005-2006 at the earliest.

In addition to industry restructuring plans, the Government announced plans to privatize Svyazinvest in 2003 or 2004. Effects of the industry reform will be reflected in the Group's financial statements as they become known and estimable.

e) Insurance matters

In early 2003 the Company has insured the most of its telecommunication equipment. In the opinion of directors the insurance coverage is sufficient to compensate direct losses which could arise from technical breakdown.

31. CREDIT RISK MANAGEMENT

A portion of the Group's accounts receivable is from State and other public organizations. Collection of these receivables is influenced by political and economic factors. Management believes there are no significant unprovided losses relating to these or other receivables at December 31, 2002.

Financial instruments that could expose the Group to concentrations of credit risk are mainly trade and other receivables. The credit risk associated with these assets is limited due to the Group's large customer base and ongoing procedures to monitor the credit worthiness of customers and other debtors.

The Group deposits available cash with several non-state owned Russian banks. Deposit insurance is not offered to banks operating in Russia. To manage the credit risk, the Group allocates its available cash to a variety of Russian banks and management periodically reviews the credit worthiness of the banks in which such deposits are made.

(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

32. INTEREST RATE RISK MANAGEMENT

Trade and other receivables and payables are non-interest bearing financial assets and liabilities. Interest rates payable on the Group's loans and other borrowings are disclosed in Notes 18 and 19.

33. SUBSEQUENT EVENTS

In February 2003 due to the fire in one of the Moscow telephone stations equipment of the Group's associates – Telmos and Golden Telecom was significantly damaged. The Group's share of losses incurred by these associates as a result of this event in 2003 would be limited to 150.

In 2003 the Group sold its investments in NCC, Baykalwestcom and Eniseytelecom to companies within the Group of OAO "Svyazinvest" for the following price:

Investment	Interest sold	Sales price received
NCC	50%	636
Baykalwestcom	49%	270
Eniseytelecom	49%	397

In June 2003 the Group signed an agreement with Alpha Bank (Russia) related to restructuring of debt to Vnesheconombank (refer to Note 18). Upon the agreement, the Group debt shall be converted into notes payable totaled to amount of US$ 100 million (3,070) repayable within 36 months in 6 equal semi-annual installments of US$ 16.7 (512) each.