OAO ROSTELECOM

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED DECEMBER 31, 2003

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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 67, 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:

D.E. Erokhin,
General Director

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

June 29, 2004

Report of Independent Auditors

To the Board of Directors and Shareholders of OAO Rostelecom

We have audited the accompanying consolidated balance sheets of OAO Rostelecom, an open joint stock company, and subsidiaries (hereinafter referred to as the "Group") as of December 31, 2003 and 2002, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with International Financial Reporting Standards as published by the International Accounting Standards Board.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 35 to the consolidated financial statements.

/Ernst & Young CIS Limited/

Moscow, Russia
June 29, 2004

	Notes	December 31, 2003	December 31, 2002
ASSETS			
Property, plant and equipment, net	6	49,585	56,278
Investments in associates	8	2,381	2,635
Long-term financial investments	9	126	578
Goodwill	7, 10	17	39
Negative goodwill, net of current portion	7, 10	-	(240)
Lease receivables	11	-	2,713
Other non-current assets		26	356
Non-current assets		**52,135**	**62,359**
Inventory		548	502
Accounts receivable, net	12	8,291	8,617
Short-term investments	13	2,755	4,575
Short-term portion of negative goodwill	7, 10	-	(471)
Cash and cash equivalents	14	2,529	3,642
Current assets		**14,123**	**16,865**
Total assets		**66,258**	**79,224**
SHAREHOLDERS' EQUITY, MINORITY INTEREST AND LIABILITIES			
Share capital	15	100	100
Retained earnings		48,757	48,933
Total shareholders' equity		**48,857**	**49,033**
Minority interest	16	**191**	**2,825**
Accounts payable and accrued expenses	17	3,510	5,162
Amounts owed to customers		-	1,003
Taxes payable		2,054	2,253
Current portion of interest bearing loans	18	1,932	4,529
Short-term borrowings	19	-	1,537
Current liabilities		**7,496**	**14,484**
Interest bearing loans – net of current portion	18	1,641	2,317
Non-current accounts payable		366	262
Deferred tax liability	20	7,707	10,303
Non-current liabilities		**9,714**	**12,882**
Total liabilities		**17,210**	**27,366**
Total shareholders' equity, minority interest and liabilities		**66,258**	**79,224**
Commitments and contingencies	30 and 31	-	-

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

		Year ended December 31,		
	Notes	**2003**	**2002**	**2001**
Revenue				
Local operators		16,415	12,758	12,140
Subscribers		9,319	9,171	9,845
Foreign operators		4,483	5,100	6,852
Other		1,673	860	1,236
Total revenue	21	**31,890**	**27,889**	**30,073**
Operating expenses				
Wages, salaries, other benefits and payroll taxes		(3,946)	(3,476)	(3,574)
Depreciation		(8,252)	(9,089)	(7,977)
Charges by network operators – international		(5,913)	(5,779)	(7,438)
Charges by network operators – national		(4,780)	(1,707)	(2,190)
Administration and other costs		(3,782)	(3,336)	(3,214)
Taxes other than on income		(507)	(793)	(1,579)
Repairs and maintenance		(800)	(452)	(638)
Bad debt (expense) /recovery		(337)	(874)	28
Loss on sale of property, plant and equipment		(1,214)	(449)	(554)
Total operating expenses		**(29,531)**	**(25,955)**	**(27,136)**
Operating profit		**2,359**	**1,934**	**2,937**
Gain /(loss) from associates (before tax)	8	**207**	**314**	**(34)**
Interest expense		(202)	(348)	(903)
Interest income		402	310	107
Income from sale of investments		25	1,724	-
Other non-operating income, net	24	1,219	300	103
Foreign exchange gain /(loss), net		72	(933)	221
Monetary gain		-	494	2,971
Income before tax and minority interest		**4,082**	**3,795**	**5,402**
Current tax charge	25	(2,002)	(2,363)	(2,305)
Deferred tax benefit	25	1,721	1,530	3,936
Share in income taxes of associates	8, 25	(92)	(115)	(161)
Income tax (expense) /benefit		**(373)**	**(948)**	**1,470**
Income after taxation		**3,709**	**2,847**	**6,872**
Minority interest	16	(70)	82	-
Net income from continuing operations		**3,639**	**2,929**	**6,872**
Net loss from discontinued operations, net of tax, including write-down of property, plant and equipment of 419, nil and nil for 2003, 2002 and 2001, respectively	23	(3,109)	(2,251)	(2,265)
Net income		**530**	**678**	**4,607**
		Rubles	**Rubles**	**Rubles**
Earnings per share – basic and diluted	27	**0.30**	**0.61**	**6.15**
Earnings per share – continuing operations	27	**4.57**	**3.70**	**9.26**
Loss per share – discontinued operations	27	**(4.27)**	**(3.09)**	**(3.11)**

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

OAO Rostelecom
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions of Russian Rubles, refer to Note 4)

		Year ended December 31,		
	Note	**2003**	**2002**	**2001**
Cash flows from operating activities				
Net income before tax, minority interest and discontinued operations		4,082	3,795	5,402
Adjustments to reconcile net income before tax, minority interest and discontinued operations to cash generated from operating activities:				
Net loss from discontinued operations before tax and minority interest	23	(2,116)	(508)	(1,354)
Depreciation	6	8,276	9,106	7,997
Bad debt expense /(recovery)	12	339	863	(28)
(Gain) /loss from associates, before tax	8	(295)	(393)	35
Loss on sale of property, plant and equipment		1,214	449	554
Loss /(income) from sale of investments		98	(1,840)	-
Net interest and other non-operating income, including loss from discontinued operations of 804 and write-down of property, plant and equipment of 551 in 2003		864	(117)	1,300
Equity-based compensation		-	-	279
Other non-monetary income		(42)	(77)	-
Foreign exchange (gain) /loss, net		(13)	983	(291)
Gain on net monetary position		-	(165)	(2,472)
Changes in net working capital:				
(Increase) /decrease in accounts receivable		(2,837)	600	(260)
(Increase) /decrease in lease receivables		(3,685)	(3,408)	482
(Increase) /decrease in inventories		(46)	187	72
(Decrease) /increase in payables and accruals		(1,212)	691	(661)
Cash generated from operations		**4,627**	**10,166**	**11,055**
Interest paid		(956)	(1,270)	(1,375)
Interest received		577	375	131
Income tax paid		(2,173)	(3,558)	(2,848)
Net cash provided by operating activities		**2,075**	**5,713**	**6,963**
Cash flows from investing activities				
Purchase of property, plant and equipment		(3,328)	(2,281)	(2,020)
Proceeds from sale of property, plant and equipment		21	23	25
Purchase of subsidiaries, net of cash acquired		(642)	(1,138)	-
Purchase of available-for-sale investments (securities), net		(8,415)	(2,198)	(1,637)
Proceeds from sale of available-for-sale investments, net of direct costs		9,140	1,970	766
Advances to investee and other companies issued		-	(1,020)	-
Advances to investee and other companies received		-	1,046	-
Dividends received from associates		13	97	98
Repayment of lease obligations	23	(3,520)	-	-
Cash received on discontinuance of segments, net of cash disposed of		91	-	-
Net cash used in investing activities		**(6,640)**	**(3,501)**	**(2,768)**
Cash flows from financing activities				
Proceeds from issuance of bonds	19	-	1,532	1,669
Redemption of bonds	19	-	(1,021)	(576)
Drawdown of interest bearing loans		9,939	5,879	3,389
Repayment of interest bearing loans		(6,471)	(6,165)	(7,288)
Proceeds from issuance of notes		2,208	1,344	-
Redemption of notes		(1,455)	(1,347)	-
Dividends paid		(706)	(363)	(248)
Dividends paid to minority shareholders of a subsidiary		(29)	(294)	-
Proceeds from sale of additional ordinary shares by a subsidiary		-	24	-
Cash paid for acquisition of minority interest		-	-	(201)
Net cash provided by /(used in) financing activities		**3,486**	**(411)**	**(3,255)**
Effect of exchange rate changes on cash and cash equivalents		**(34)**	**36**	**36**
Net (decrease) /increase in cash and cash equivalents		**(1,113)**	**1,837**	**976**
Monetary effects on cash		**-**	**(417)**	**(329)**
Cash and cash equivalents at beginning of year		**3,642**	**2,222**	**1,575**
Cash and cash equivalents at the end of year		**2,529**	**3,642**	**2,222**
Non-monetary transactions:				
Non-cash additions to property, plant and equipment		316	103	1,882
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.

	Note	Share capital	Retained earnings	Total
Balance at December 31, 2000		**100**	**44,316**	**44,416**
Dividends		-	(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**
Dividends	15	-	(706)	(706)
Net income for the year		-	530	530
Balance at December 31, 2003		**100**	**48,757**	**48,857**

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 States 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, 2003, 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 (Rbl). 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.

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.

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 - 2003, the Ruble's value fluctuated between 26.9 and 31.8 to 1 US Dollar. As of June 29, 2004, the exchange rate was 29.02 Rubles to 1 US Dollar.

The following table summarizes the exchange rate of the Ruble to 1 US Dollar as of December 31, 2003, 2002 and 2001.

As of December 31,	Exchange Rate
2003	29.45
2002	31.78
2001	30.14

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 partial conversion of foreign currency sales to Rubles.

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
2003	12.0%
2002	15.1%
2001	18.8%

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 (for example, 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 31 for description of possible tax contingencies.

4. ACCOUNTING FOR THE EFFECTS OF INFLATION

Prior to December 31, 2002, the Russian Federation met the definition of a hyperinflationary economy as defined by International Accounting Standard ("IAS") No. 29, "Financial Reporting in Hyperinflationary Economies".

IAS No. 29 requires that financial statements prepared on a historical cost basis be adjusted to take into account the effects of inflation, for entities reporting in hyperinflationary economies. The Group has utilized the general price index reported by the State Committee on Statistics of the Russian Federation ("Goskomstat") in the application of IAS No. 29.

Effective January 1, 2003, the economy of the Russian Federation ceased to meet the criteria of hyperinflationary economy. Accordingly, beginning January 1, 2003, the Company ceased to apply IAS No. 29 on a prospective basis.

As a result of this change, the carrying amounts of non-monetary assets expressed in the Russian Rubles current at December 31, 2002 formed the basis for the respective assets at January 1, 2003.

Transactions undertaken subsequent to December 31, 2002 are reported at actual, nominal amounts except for those involving non-monetary assets and liabilities acquired and incurred prior to January 1, 2003. Results of operations (including gains and losses on disposal) involving such assets and liabilities are recognized based on the restated cost, which was calculated by applying to the carrying values of these assets and liabilities the change in the general price index through December 31, 2002. Comparative financial information for the years ended December 31, 2002 and 2001 is presented in terms of the measuring unit current as of December 31, 2002.

The application of IAS No. 29 to specific categories of transactions and balances within the consolidated financial statements prepared prior to 2003 was set out as follows:

Monetary assets and liabilities

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

Gains or losses on the net monetary position of assets and liabilities which arise as a result of inflation, have been 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 acquired prior to December 31, 2002 have been restated from their historical cost or valuation by applying the change in the general price index from the date of recognition through December 31, 2002.

Consolidated statements of income and cash flows

Items included in the consolidated statements of income and cash flows for the years ended December 31, 2002 and 2001 have been restated by applying the change in the general price index from the dates when the items were initially recorded through December 31, 2002.

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

The excess of purchase price paid over the 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% and 50% of the voting ownership interest 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 income, and the Group's share of the net assets of associates is included in the consolidated balance sheet. An assessment of investments in associates for possible impairment or reversal of impairment recognized previously 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 to fund future losses. Unrealized profits that arise from transactions between the Group and its associates are eliminated in the proportion to the Group’s share in such associates, and unrealized losses are 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 a case the share in an entity is acquired with intention to sell it in the foreseeable future, such investment is accounted for as available-for-sale asset.

Property, plant and equipment

For the purpose of determining the opening balances on the first application of IFRS at 1 January 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 historical 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 labour, 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 income 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.

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 income. Any subsequent increase in the recoverable amount of the assets are reversed 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 or value in use. The value in use of the asset is estimated based on forecast of future cash inflows and outflows to be derived from continued use of the asset 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 lease, 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 the 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.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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 its 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 income.

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 income based on the stage of completion. Losses expected from the construction contracts are recognized in the statement of income 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 recoverability of significant accounts.

Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments (other than in consolidated subsidiaries and equity method investees), receivables, accounts payable and borrowings. The particular recognition methods adopted for financial instruments are disclosed in the individual policy statements associated with each item.

Financial instruments 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 in debt instruments 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 in debt and equity instruments 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, 2003 and 2002. 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 income. Interest income from investments is accrued during the period in which it is earned.

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

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 tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

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.

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. Revenues and expenses are reported net of respective value added tax.

The Company charges and pay to regional telephone operators and other telecommunication service providers in Russia either an agreed proportion of the amounts they bill its subscribers or an agreed settlement rate based on traffic minutes (refer to Note 21). For outgoing telephone traffic originating in Moscow, subscribers are charged directly by the Company based on pre-set per minute tariffs.

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 the accompanying consolidated financial statements.

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

Through December 31, 2003 the Company made certain payments to employees on retirement, or when they otherwise left the employment of the Company. These obligations, which were unfunded, represented obligations under a defined benefit pension scheme. For such plans, the pension accounting costs were assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of income so as to spread the regular cost over the average service lives of employees. Actuarial gains and losses were recognized in the statement of income immediately.

Where such post-employment employee benefits fell due more than 12 months after the balance sheet date, they were discounted using a discount rate determined by reference to market yields on Government bonds at the balance sheet date. This benefit plan was curtailed and settled on December 31, 2003 (refer to Note 26).

The Company also participates in a defined contribution plan. Contributions made by the Company on defined contribution plans (in amount of up to a maximum of 2% of salary for each employee per month) are charged to expenses when incurred. Effective January 1, 2004, maximum contribution is established at 100 Rubles per month per employee.

The Company recognizes termination benefits as a liability and an expense when it terminates the employment of an employee before the normal retirement date or when termination benefits are provided as a result of an offer made in order to encourage voluntary redundancy.

The Company accrues for the employees’ compensated absences (vacations) as the additional amount that the Company expects to pay as a result of the unused vacation that has accumulated at the balance sheet date.

Advertising costs

Advertising costs are charged to the statement of income 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 capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization 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 the 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 income 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 exchange gains or losses in the period in which they arise.

As at December 31, 2003 and 2002, the rates of exchange used for translating foreign currency balances were (in Russian Rubles for one unit of foreign currency):

	2003	**2002**
US Dollars	29.45	31.78
Japanese Yen	0.2754	0.2663
Special Drawing Rights (SDR)	43.60	42.95
EURO	36.82	33.11

Source: the Central Bank of Russia

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 IAS No. 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
- Leasing 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.

Effective December 1, 2003, the Company discontinued two of its components represented by the leasing and banking and investing business segments (refer to Notes 22 and 23).

Discontinued operations

In March 2004, the International Accounting Standards Board issued an International Financial Reporting Standard No. 5 (IFRS No.5), "Non-current Assets Held for Sale and Discontinued Operations". IFRS No. 5 sets out requirements for the classification, measurement and presentation of non-current assets and disposal groups classified as held for sale and discontinued operations.

IFRS No. 5 requires assets or disposal groups that are expected to be sold and meet specific criteria to be measured at the lower of carrying amount and fair value less costs to sell. Such assets should not be depreciated and should be presented separately in the balance sheet.

In addition, IFRS No. 5 withdraws IAS No. 35 (IAS No. 35), "Discontinuing Operations", and replaces it with requirement that operations forming a major line of business or area of geographical operations to be classified as discontinued when the assets in the operations are classified as held for sale or when the entity has disposed of the operation. IFRS No. 5 specifies that the results of discontinued operations are to be shown separately on the face of the income statement and requires an entity to re-represent respective amounts for prior periods presented in the financial statements so that this presentation relate to all operations that have been classified as discontinued by the latest balance sheet date.

IFRS No. 5 also requires certain disclosures in respect to assets and disposal groups classified as held for sale and discontinued operations.

Entities shall apply requirements of IFRS No. 5 for annual periods beginning on or after January 1, 2005, with earlier application encouraged.

The Group has early adopted provisions of IFRS No. 5 and applied them to the financial statements for the year ended December 31, 2003. In connection with early adoption of provisions of IFRS No. 5, the Group has early adopted certain amendments to existing current International Accounting and International Reporting Standards, which are directly affected by the new requirements.

Reclassifications

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

As described above, the Group has early adopted provisions of IFRS No.5 and re-presented respective amounts for prior periods.

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.

New accounting pronouncements

In February 2004, the IASB issued International Financial Reporting Standard No. 2 ("IFRS No. 2"), "Share-based Payment" on accounting for share-based payment transactions, including grants of share options to employees. IFRS No. 2 requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees. IFRS No. 2 will apply to accounting periods commencing on or after January 1, 2005 with a restatement of comparatives. Early adoption of IFRS No. 2 is permitted. The Group is currently evaluating the impact of this standard on its results of operations, financial position and cash flows and is in the process of developing an implementation strategy.

On December 18, 2003, the IASB published thirteen revised International Accounting Standards and gave notice of the withdrawal of one International Accounting Standard. These revised standards will apply to accounting periods commencing on or after January 1, 2005, although early adoption is permitted. The revised standards are:

- IAS No. 1, "Presentation of Financial Statements",
- IAS No. 2, "Inventories",
- IAS No. 8, "Accounting Policies, Changes in Accounting Estimates and Errors",
- IAS No. 10, "Events after the Balance Sheet Date",
- IAS No. 16, "Property, Plant and Equipment",
- IAS No. 17, "Leases",
- IAS No. 21, "The Effects of Changes in Foreign Exchange Rates",
- IAS No. 24, "Related Party Disclosures",
- IAS No. 27, "Consolidated Financial Statements and Accounting for Investments in Subsidiaries",
- IAS No. 28, "Investments in Associates",
- IAS No. 31, "Interests in Joint Ventures",
- IAS No. 33, "Earnings per Share", and
- IAS No. 40, "Investment Property."

The withdrawn standard was IAS No. 15, "Information Reflecting the Effects of Changing Prices."

IAS No. 33, as revised, requires the application of the "two-class method" to determine earnings applicable to ordinary shareholders, the amount of which is used as a nominator to calculate earnings per ordinary share. The application of the "two-class method" requires that the profit or loss after deducting preferred dividends is allocated to ordinary shares and other participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature. When adopted, the application of the provisions of IAS No. 33, as revised, will require retrospective treatment.

Accordingly, taking into account that the Company's preferred shares have certain participation features (see Note 15) and the fact that IAS No. 33, as revised, does not make a difference whether the Company has or not a discretion over distributions to the holders of participating securities, the Group's management has determined that the adoption of this revised standard will have the material impact on the amount of earnings per ordinary share being reported in accordance with IFRS.

The effects of the application of IAS No. 33, as revised, on the amounts of earnings per share reported in the accompanying consolidated financial statements as if it had been adopted in respect to all periods presented are as follows:

	2003	**2002**	**2001**
Net income applicable to all equity instruments holders	530	678	4,607
Less: preferred dividends	(310)	(235)	(124)
Less: undistributed net income applicable to the preferred shareholders	-	-	(1,028)
Net income applicable to ordinary shareholders	**220**	**443**	**3,455**
Weighted-average number of ordinary shares outstanding	728,696,320	728,696,320	728,696,320
Earnings per ordinary share	0.30	0.61	4.74
Earnings per ordinary share, as reported in the accompanying consolidated financial statements	0.30	0.61	6.15

Except for the matter disclosed in preceding paragraphs, the Group is currently evaluating the impact of the changes introduced by these revised standards on its results of operations, financial position and cash flows and is in the process of developing an implementation strategy.

On December 17, 2003, the IASB released its revised standard, IAS No. 32, "Financial Instruments: Disclosure and Presentation (revised 2003)". This standard replaces IAS No. 32, "Financial Instruments: Disclosure and Presentation (revised 2000)", and should be applied for annual periods beginning on or after January 1, 2005. Earlier application is permitted. The Group is currently evaluating the impact of the changes introduced by this revised standard on its disclosure requirements and is in the process of developing an implementation strategy.

The IASB also issued IAS No. 39, "Financial Instruments: Recognition and Measurement (2003)", in December 2003. This standard supersedes IAS No. 39, "Financial Instruments: Recognition and Measurement (revised 2000)", and should be applied for annual periods beginning on or after January 1, 2005. Earlier application is permitted. The Group is currently evaluating the impact of the changes introduced by this revised standard on its results of operations, and financial position and cash flows and is in the process of developing an implementation strategy.

On March 31, 2004, the IASB issued International Financial Reporting Standard No. 3 ("IFRS 3"), "Business Combinations", on accounting for business combinations and revised IAS 36, "Impairment of Assets", and IAS 38, "Intangible Assets". The main features of the new and revised standards are that all business combinations within the scope of IFRS No. 3 must be accounted for using the purchase method. The pooling of interests method is prohibited. The costs expected to be incurred to restructure an acquired entity's (or the acquirer's) activities must be treated as post-combination expenses, unless the acquired entity has a pre-existing liability for restructuring its activities. Intangible items acquired in a business combination must be recognized as assets separately from goodwill if they meet the definition of an asset, are either separable or arise from contractual or other legal rights, and their fair value can be measured reliably. Identifiable assets acquired, and liabilities and contingent liabilities incurred or assumed, must be initially measured at fair value. Amortization of goodwill and intangible assets with indefinite useful lives is prohibited. Instead they must be tested for impairment annually, or more frequently if events or changes in circumstances indicate a possible impairment. These standards apply to business combinations commencing on or after March 31, 2004. For previously recognized goodwill the standards will apply from the beginning of the first annual period commencing on or after March 31, 2004. The Group is currently evaluating the impact of these standards on its results of operations, financial position and cash flows and is in the process of developing an implementation strategy.

On March 31, 2004, the IASB issued International Financial Reporting Standard No. 4 ("IFRS 4"), "Insurance Contracts", that provides guidance on accounting for insurance contracts. The adoption of this standard is not expected to have a material impact on the Group's results of operations, financial position and cash flows.

6. PROPERTY, PLANT AND EQUIPMENT, NET

The net book value of property, plant and equipment as of December 31, 2003 and 2002 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost or valuation					
At January 1, 2003	24,012	127,811	23,635	3,872	179,330
Additions	-	-	-	3,579	3,579
Additions with acquired subsidiaries	580	-	-	-	580
Disposals	(1,294)	(5,646)	(784)	(56)	(7,780)
Disposal of subsidiaries and write-down of property, plant and equipment	(580)	(551)	(291)	-	(1,422)
Transfer	668	676	706	(2,050)	-
At December 31, 2003	23,386	122,290	23,266	5,345	174,287
Accumulated Depreciation					
At January 1, 2003	15,823	92,369	14,860	-	123,052
Depreciation	546	5,353	2,377	-	8,276
Disposals	(898)	(4,966)	(659)	-	(6,523)
Disposal of subsidiaries	-	-	(103)	-	(103)
At December 31, 2003	15,471	92,756	16,475	-	124,702
Net book value at December 31, 2003	**7,915**	**29,534**	**6,791**	**5,345**	**49,585**

	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)
Transfer	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	584	6,132	2,390	-	9,106
Accumulated deprecation on property, plant and equipment of acquired subsidiaries	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**

During 2002, the Company formalized a plan to discontinue using satellite channels beginning from February 2003. Payments for rent of these channels were included in the carrying value of cable and transmission devices. The Company has accordingly revised its estimate of the remaining period of use of the satellite channels. Depreciation expense of 210 (2002: 897) was recognized in the accompanying consolidated financial statements. Amounts receivable from the lessor for partial return of prepayments of 525 (2002: 545) are included in other accounts receivable as of December 31, 2003 and in other non-current assets (356) and other accounts receivable (189) as of December 31, 2002. The Company received a payment of 178 in April 2004 and of 100 in June 2004.

Included in the roll-forward of fixed assets movements for the year ended December 31, 2003 as the effects of the disposal of subsidiaries and write-down of property, plant and equipment is the amount of (551) representing the effect of writing down to fair value of the carrying amount of additional interest in fixed assets acquired as a result of discontinuance of leasing, and banking and investing segments (refer to Note 23).

Interest amounting to 123, 57 and 92 was capitalized in property, plant and equipment for the years ended December 31, 2003, 2002 and 2001. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 6.3%, 6.9% and 9.0%, respectively.

Property, plant and equipment with a carrying value of 2,158 and 9,117 was pledged in relation to loan agreements entered into by the Group as of December 31, 2003 and 2002, respectively (refer to Note 18).

The carrying value of telecommunication equipment held by RTComm.RU, a consolidated subsidiary, under finance leases with RTC-Leasing was 218 and 146 as of December 31, 2003 and 2002, respectively.

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, 2003	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%	100%
OAO RTComm.RU (“RTComm.RU”)	Russia	31%	37.91%
ZAO AKOS (“AKOS”)	Russia	-	29.68%
OOO “Spetsautoleasing”	Russia	-	32.27%

The Company owned 32.27% and 27% of outstanding voting shares of RTC-Leasing as of December 31, 2002 and 2001, respectively, which constituted 27% of total issued voting shares as of those dates. The principal activity of RTC-Leasing is the leasing of equipment to telecommunications companies in Russia. Until the middle of 2003, the principal counterparty as lessee to finance leases entered into

by RTC-Leasing was Rostelecom. In the accompanying consolidated financial statements finance lease transactions between RTC-Leasing and Rostelecom and other companies of the Group for the years ended December 31, 2001 and 2002 and for the 11 months ended November 30, 2003 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%.

During 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, the Group recognized 279 as compensation expense and recorded it in wages, salaries, other benefits and payroll taxes in the consolidated statement of income for the year ended December 31, 2001. In 2002, RTC-Leasing declared and paid preferred dividends in the amount of 109.

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 a result of dividend payment and redemption of the preferred shares, the holders of preferred shares received additional compensation of 21. The share of the Group in that compensation amounted to 6 and 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 direct 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 (the "Agreement") among: (1) Rostelecom and non-state pension fund "Rostelecom-Garantiya" (the "Initial shareholders"), (2) RTC-Leasing, and (3) a consortium of the shareholders (the "Consortium"). 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
ZAO "Gamma-Invest"	15.93
ZAO "KFP-Finance"	15.77
RIB	15.93
Treasury shares held by RTC-Leasing	0.48
Total ordinary shares	**100.00**

CB "Severo-Zapadniy Telecombank" and Non-commercial partnership "The Telecommunications Development Research Center" are related parties of the Group as several representatives of Svyazinvest and its subsidiaries are directors of these companies.

Shares owned by RIB, a wholly-owned subsidiary of RTC-Leasing, are treated as treasury shares. 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.

RTC-Leasing together with its subsidiaries operates primarily in leasing, and banking and investing segments. Effective December 1, 2003, the Group discontinued these segments as a result of discontinuance of RTC-Leasing (refer to Note 23).

RTCL S.A. is a 100% subsidiary of RTC-Leasing established in 2000 under legislation of Switzerland. RTCL S.A. 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. were consolidated by the Group from January 1, 2002 till December 1, 2003 (refer to Note 23).

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). As of the date of its acquisition, RTDC had 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 as 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 till December 1, 2003 (refer to Note 23).

At the date of acquisition in April 2002, RTDC owned 50% of ordinary shares of Westelcom. The main activity of Westelcom is provision of international traffic transition services. Rostelecom owned remaining 50% of Westelcom ordinary shares, investment in 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 paid by the Group in April 2002 was split as follows:

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

In April 2002, RTDC owned 92% of ordinary shares of AKOS, whose main activity constituted provision of cellular services in the Primorskiy region of Russia. Assets and liabilities of AKOS were included in purchase price allocation for RTDC. Accordingly, the results of operations and financial position of AKOS were consolidated by the Group beginning from April 2002 till December 1, 2003 (refer to Note 23).

The excess of fair value of the acquired identifiable net assets of RTDC and AKOS over purchase price paid 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)**

As of December 31, 2002, Rostelecom and RTC-Leasing owned 25% and 40% of voting shares of RTComm.RU, respectively. In January 2003, RTComm.RU issued additional shares that resulted in an increase of interest of Rostelecom and RTC-Leasing in voting stock of RTComm.RU up to 31% and 49%, respectively. The additional issuance was accounted for as purchase of minority interest using the purchase method. Goodwill of 3 was recognized in relation to this transaction. Starting December 1, 2003, as a result of the discontinuance of business (refer to Note 23), Rostelecom owned 31% of voting shares of RTComm.RU. In the opinion of management, the Company continues to exercise control over the management, policies and day-to-day operations of RTComm.RU. The Company provides the major part of channels used by RTComm.RU for rendering of services to its customers. The activities of the RTComm.RU are being conducted on behalf of the Company according to its specific business needs so that the Company obtains benefits from the special purpose entity's operations and retains the majority of risks related to RTComm.RU. Therefore, the Company continues to consolidate the results of operations and financial position of RTComm.RU.

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). This transaction was accounted for as purchase of minority interest using the purchase method. After completion of this

purchase, the share of the Company in net assets of Westelcom became equal to 100%.

In March 2002, RTC-Leasing acquired 80% of ordinary shares of 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 till December 1, 2003 (refer to Note 23). In July 2002, RTC-Leasing acquired the 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.

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 net 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**

(*) – 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 acquisition of minority interest in Westelcom in October 2002.

In November 2003, RTC-Leasing acquired 100% of ordinary shares of ZAO Stroitelnaya Kompania “Absolut” (“Absolut”) for a cash payment of 715. Main activity of Absolut is rent of office premises. The acquisition was accounted for using the purchase method.

Based on preliminary purchase price allocation, the excess of consideration paid over fair value of the acquired identifiable net assets of Absolut was identified as follows:

Total consideration	**715**
Fair value of identifiable assets and liabilities:	
Property	581
Accounts receivable	49
Long-term liabilities	(72)
Total net assets (100% acquired by the Group)	**558**
Goodwill	**157**

8. INVESTMENTS IN ASSOCIATES

Movements in investments in associates during the years ended December 31, 2003 and 2002 were as follows:

	2003	2002
Beginning of year	2,635	1,239
Additions	-	2,123
Dividends received	(13)	(97)
Share in income/ (loss) before income taxes included in continuing operations	128	(68)
Share in income before income taxes included in discontinued operations	88	79
Share of income taxes included in continuing operations	(92)	(5)
Share of income taxes included in discontinued operations	3	(18)
Sale of investments	(145)	-
Disposal of subsidiaries (refer to Note 23)	(223)	-
Acquisition of subsidiaries	-	(618)
End of year	**2,381**	**2,635**

Total gain / (loss) from associates presented in the consolidated statements of income is composed of the following:

	2003	2002	2001
Share in income/ (loss) of associates included in movements in investments in associates	128	(68)	(35)
Income from GlobalTel	79	-	-
Share in income of EDN Sovintel from 1 January 2002 through the date of disposal	-	382	-
Total gain /(loss) from associates (before tax)	**207**	**314**	**(35)**

Total share in income taxes of associates presented in the consolidated statements of income is composed of the following:

	2003	2002	2001
Share in income taxes of associates included in movements in investments in associates	92	5	161
Share in income taxes of EDN Sovintel from 1 January 2002 through the date of disposal	-	110	-
Total share in income taxes of associates	**92**	**115**	**161**

Investments in associates as of December 31, 2003 and 2002 were as follows:

Associate	Main activity	Voting share capital, %	2003 Carrying amount	2002 Carrying amount
ZAO Telmos	Telecommunication services	20	177	210
OAO Moscow Cellular Communications (“MCC”)	Mobile telecommunications	- (2002: 45.5)	-	145
OAO Delta Telecom	Mobile telecommunications	- (2002: 42.5)	-	161
ZAO Uralwestcom	Mobile telecommunications	- (2002: 49)	-	67
Golden Telecom, Inc., USA (“Golden Telecom”) (refer to Note 9)	Telecommunication services	11.19 (2002: 15)	2,066	1,874
ZAO Telecom – center	Telecommunication services	45	46	40
OAO MMTS-9	Telecommunication services	49	47	39
GlobalTel	Satellite telecommunications	51	-	-
Other	Various		45	99
Total investments in associates			**2,381**	**2,635**

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

As of December 31, 2003, the shares of Telmos owned by Rostelecom were pledged.

As of December 31, 2002, the Group owned 45.5% of shares of Moscow Cellular Communications (“MCC”), of which RTDC owned 22% and Rostelecom owned 23.5%. In November 2003, Rostelecom sold its 23.5% interest in MCC to ZAO Sky Link, which is a related party to RTC-Leasing, for a cash payment of 162. Gain on sale of 25 was included in income from sale of investments in the accompanying consolidated statement of income for the year ended December 31, 2003.

The disposal of the remaining 22% ownership interest in MCC as well as a disposal of investments in Delta Telecom and Uralwestcom, owned by RTDC, was conducted through the divestiture of a business of RTC-Leasing on December 1, 2003 (refer to Note 23).

In September 2002, as a result of a sale of its 50% interest in EDN Sovintel to Golden Telecom, Inc. the Company acquired 4,024,067 ordinary shares of the latter (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 income for the year ended December 31, 2002. In November 2002, two representatives of Rostelecom have been elected to the Board of Directors of Golden Telecom.

At the date of exchange transactions, the Group's management believed that the Group had the ability to exercise significant influence over the financial and operating policies of Golden Telecom through representation on its Board of Directors. Accordingly, investment into Golden Telecom was accounted for using the equity method in the accompanying consolidated financial statements.

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 determined to be amortized over the period of 8 years. Amortization charge of 95 and 32 reduced gain from associates (before tax) for the years ended December 31, 2003 and 2002, respectively. The unamortized part of 635 and 730 was included in carrying amount of investment in Golden Telecom as of December 31, 2003 and 2002, respectively.

During 2003, as a result of a number of transactions initiated by the shareholders of Golden Telecom, the Company's share in the voting stock of Golden Telecom experienced a dilution of 3.7% from 14.9% as of December 31, 2002 to 11.2% as of December 1, 2003. The dilution of interest was accounted for as sale of interest in the associate. Gain of 2 resulting from the dilution of interest was included in gain from associates in the accompanying consolidated statement of income for the year ended December 31, 2003. Management performed the analysis of the changes in the shareholders' structure of Golden Telecom during 2003, and concluded that Rostelecom continues to exercise significant influence over Golden Telecom. Subsequent to the year end, Golden Telecom declared dividends of which 47 are attributable to Rostelecom.

The Group owns 51% 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% 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 share in net losses of GlobalTel of 467 in 2001. The Group did not recognize its share in losses of GlobalTel in 2003 and 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 fully provided for. Any receipts from GlobalTel are recognized as gain from associates in the period they are received.

The summary of sale of investments in associates during 2003 is presented below:

	Proceeds from sale	Carrying value of investments	Gain
Sale of shares of MCC	162	(137)	25
Other	8	(8)	-
Total	**170**	**(145)**	**25**

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 the investments in Golden Telecom as of December 31, 2002, initial investment in which was valued at its market value. All associates have a December 31 year-end.

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 (loss) of associates.

9. LONG-TERM FINANCIAL INVESTMENTS

Long-term financial investments as of December 31, 2003 and 2002 comprised the following:

	2003	2002
Loans provided to associates and other companies	-	204
Loans provided to customers	-	69
Notes receivable	29	165
Other long-term financial investments	97	140
Total long-term financial investments	**126**	**578**

As of December 31, 2002, loans provided to associates and other companies included loans provided by the Group to Uralwestcom (refer to Note 8) of 31.

As of December 31, 2002, loans provided to customers represented loans provided by RIB to Russian companies, mainly telecommunication and industrial, and to individuals.

As of December 31, 2002, other long-term financial investments include investment in Volga Telecom of 139, which are stated at fair value. As of December 31, 2003 and 2002 other long-term financial investments include investment in OAO Sberbank of Russia of 60 and nil, respectively, which are stated at fair value.

10. GOODWILL AND NEGATIVE GOODWILL

Goodwill was recognized in connection with acquisition of Westelcom and RIB in 2002 and Absolut in 2003 and represents the excess of the purchase price paid over fair value of identifiable net assets acquired.

Negative goodwill resulted from acquisition of interest in RTDC in 2002 and changes in ownership interest in RTC-Leasing during 2002. It represented the excess of 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, except for goodwill and negative goodwill related to investments available-for-sale, which is amortized to income when the underlying investments are sold.

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

Changes in amounts of goodwill and negative goodwill during the year ended December 31, 2003 were as follows:

	Goodwill	Negative goodwill, short-term portion	Negative goodwill, long-term portion
Balance as of December 31, 2001	**-**	**-**	**-**
Addition due to acquisition of subsidiaries	(91)	(540)	(166)
Additions due to purchase of minority interest	133	(16)	(74)
Amortization	(3)	85	
Balance as of December 31, 2002	**39**	**(471)**	**(240)**
Additions due to acquisition of subsidiaries	157	-	-
Additions due to purchase of minority interest	4	-	-
Reclassification of negative goodwill	-	(51)	51
Amortization of negative goodwill due to sale of available-for-sale investments (refer to Note 13)	-	455	-
Amortization	(14)	51	-
Disposal of subsidiaries (refer to Note 23)	(169)	16	189
Balance as of December 31, 2003	**17**	**-**	**-**

11. LEASE RECEIVABLES

As discussed in Note 7, the principal activity of RTC-Leasing is the leasing of equipment to telecommunication companies. Prior to 2002, the Company was a principal lessee of such equipment. During 2002, RTC-Leasing concluded a number of new agreements with companies, other than Rostelecom, primarily with regional telecommunication subsidiaries of OAO Svyazinvest (see also Note 29), and with certain non-related entities.

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

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

Current portion of lease receivables as of December 31, 2002 is included in accounts receivable in the accompanying balance sheet (refer to Note 12).

As a result of discontinuance of the leasing segment in 2003 (refer to Notes 7 and 23), there are no lease receivables reported in the accompanying balance sheet as of December 31, 2003.

12. ACCOUNTS RECEIVABLE, NET

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

	2003	2002
Trade accounts receivable	7,594	7,192
Less: allowance for doubtful trade accounts receivable	(2,406)	(2,214)
Trade accounts receivable, net	5,188	4,978
Prepayments	425	218
Prepaid taxes	2,030	1,447
Current portion of lease receivables	-	1,282
Other accounts receivable	931	921
Less: allowance for doubtful other accounts receivable	(283)	(229)
Other accounts receivable, net	3,103	3,639
Total accounts receivable, net	**8,291**	**8,617**

Trade accounts receivable, net of allowances for doubtful accounts, include amounts totaling 761 (2002: 1,027) due from foreign telecommunications operators which are denominated in foreign currencies, principally represented by Special Drawing Rights ("SDR") and US dollars, and amounts totaling 3,181 (2002: 2,685) due from local telephone operators. As of December 31, 2003 and 2002, the carrying value of trade accounts receivable approximated their fair value.

The following table summarizes the changes in the allowance for doubtful accounts receivable for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Balance, beginning of year	2,443	1,825	2,201
Impact of inflation on opening balance	-	(240)	(348)
Provision for /(recovery of) doubtful accounts receivable	339	863	(28)
Accounts receivable written-off	(93)	(5)	-
Balance, end of year	**2,689**	**2,443**	**1,825**

13. SHORT-TERM INVESTMENTS

Short-term investments include investments available-for-sale, which are stated at fair value. Short-term investments comprised the following as of December 31, 2003 and 2002:

	2003	2002
Baykalwestcom	-	410
Eniseytelecom	-	420
Nizhogorodskaya Cellular Communication ("NCC")	-	802
VEB bonds (USD denominated)	199	197
Eurobonds (USD denominated)	-	127
Liquid bills of exchange	1,855	2,085
Bonds of the companies of the Svyazinvest Group (Ruble denominated)	-	69
Other corporate securities (Ruble denominated)	-	51
Short-term deposits	700	-
Other	1	414
Total short-term investments	**2,755**	**4,575**

Liquid bills of exchange as of December 31, 2003 include promissory notes of the following companies of the Svyazinvest Group:

	Carrying value
OAO Dalsvyaz	12
OAO Centertelecom	2
OAO Sibirtelecom	2
	16

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) with the intent to be sold in the near future. In the first half of 2003, RTDC sold its investments in these companies to other subsidiaries of OAO Svyazinvest with the following results:

	Proceeds from sale	Carrying value of investments	Amortization of negative goodwill	(Loss) /gain
Baykalwestcom	267	(410)	111	(32)
Eniseytelecom	393	(420)	117	90
NCC	632	(802)	227	57
Total	1,292	(1,632)	455	115

Gain/(loss) from sale of investments was included in net loss from discontinued operations, net of tax, in the consolidated statement of income for the year ended December 31, 2003.

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.

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 the next year. The bills of exchange bear interest in the range from 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.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2003 and 2002 included cash on hand and at bank accounts as follows:

	2003	**2002**
Cash on hand	2	19
Cash at bank – Rubles	1,736	227
Cash at bank – Foreign currencies	236	572
Short term deposits – Rubles	405	1,447
– Foreign currencies	147	96
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
Other	3	-
Total	**2,529**	**3,642**

As of December 31, 2003, cash at bank in foreign currencies included amounts of 105 (2002: 120) 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, 2003 and 2002 comprised 1,634,026,541 ordinary shares and 242,832,000 non-redeemable preferred shares. The par value of both ordinary and preferred shares amounted to Rbl 0.0025 per share.

As of December 31, 2003 and 2002, the issued and outstanding share capital was as follows:

	Number of shares	**Nominal value**	**Carrying amount**
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 transactions with own shares during 2003, 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 approval of shareholders.

The nominal share capital of the Company recorded 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, 2003 and 2002 amounted to 2,428,819 nominal Rubles.

Ordinary shares carry voting rights with no guarantee of dividends.

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 reported in the Russian statutory accounts divided by the number of preferred shares and the dividends paid on one ordinary share. If the holders of preferred shares receive dividends of less than 10% of the net income after taxation as reported in the Russian statutory accounts, no dividends to the holders of ordinary shares are declared. 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 partly) 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, 2003 and 2002 amounted to 14,452 and 6,797, 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, 2002 and 2001 were as follows:

	2002	2001
Dividend – preferred shares	310	235
Dividend – ordinary shares	396	164
	706	**399**

	Rbl	Rbl
Dividend per preferred share	1.27	0.96
Dividend per ordinary share	0.54	0.22

On June 26, 2004, the Annual General Shareholders' Meeting declared dividends in respect of 2003. Ordinary shares dividends amounted to 0.88 Ruble per share (640) and dividends on the preferred shares amounted to 3.25 Ruble per share (790). The accompanying consolidated financial statements do not reflect the dividend payable in respect of 2003, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending December 31, 2004.

16. MINORITY INTEREST

	2003	2002	2001
At beginning of year	2,825	1,929	1,530
Minority interest in net assets of acquired subsidiaries	-	224	-
Minority interest in net income/ (loss) of subsidiaries – continuing operations	70	(82)	-
Minority interest in net income of subsidiaries – discontinued operations (refer to Note 23)	650	1,153	322
Minority effect of preferred shares issued by subsidiary	-	-	279
Dividends paid to minority shareholders of subsidiaries	(29)	(129)	-
Purchase of minority interest	(3)	(79)	(202)
Re-purchase of own preferred shares by a subsidiary	-	(191)	-
Minority interest in discontinued subsidiaries (refer to Note 23)	(3,322)	-	-
At the end of year	**191**	**2,825**	**1,929**

17. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of December 31, 2003 and 2002:

	2003	2002
Trade accounts payable	3,122	3,114
Accrued expenses	156	1,865
Compensation related accruals	183	135
Dividends payable	49	48
Total accounts payable and accrued expenses	**3,510**	**5,162**

As of December 31, 2003, trade accounts payable included amounts totaling 1,326, which are denominated in foreign currencies, principally represented by Special Drawing Rights and US Dollars (2002: 1,832).

Trade accounts payable as of December 31, 2003 include accounts payable to RTC-Leasing of 520, which were repaid in 2004 (refer to Notes 23 and 34).

Trade accounts payable as of December 31, 2003 include lease payable by RTComm.RU to RTC-Leasing of 147. The non-current portion of lease payable of 79 is included in non-current accounts payable in the accompanying consolidated balance sheet as of December 31, 2003, and matures in 2005.

18. INTEREST BEARING LOANS

The interest bearing loans as of December 31, 2003 and 2002 were as follows:

Maturity	2003	2002
Current portion of interest bearing loans	1,932	4,529
Between one to two years	1,088	919
Between two to three years	518	641
Between three to four years	35	479
Between four to five years	-	278
Non-current portion of interest bearing loans	1,641	2,317
Total interest bearing loans	**3,573**	**6,846**

As of December 31, 2003 and 2002, interest bearing loans, which are mostly denominated in foreign currencies, were as follows:

	Note	2003	2002
US Dollars (US$)	(a)	2,639	826
Japanese Yen (JPY)	(b)	245	3,089
EURO	(c)	34	150
Foreign currency denominated loans		2,918	4,065
Russian Ruble denominated loans	(d)	655	2,781
Total interest bearing loans		**3,573**	**6,846**

As of December 31, 2003, the Group had the following loans outstanding:

a) This includes the following amounts:

- US$ 7.68 million (226) on a credit agreement between Rostelecom and Sumitomo Corporation entered into in March 1997. The loan is secured by the related equipment with carrying value of 1,873 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 189.

- US$ 81.9 million (2,413) on promissory notes issued to Alfa-bank in 2003. In June 2003, according to the Government decision #221 dated April 16, 2003, Rostelecom's overdue debt (with a principal of 11,601 million Japanese Yen (2,976 at the exchange rate as of June 30, 2003) and accrued interest of 20) payable to Vnesheconombank, acting as an agent of the Ministry of Finance of Russian Federation, was restructured by converting it into promissory notes issued to Alfa-Bank. Upon conversion, the carrying amount of debt amounted to US$ 98.6 (2,991 at the exchange rate as of June 30, 2003). As a result of conversion, Rostelecom's principal debt to the Ministry of Finance and interest accrued thereon were repaid in full. Upon extinguishment of debt to the Ministry of Finance, the Company ceased to be in technical default in respect of this debt. According to the Ministry of Finance's resolution dated September 16, 2003, fines and penalties of 2,837 million Japanese Yen (749 at the exchange rate as of date of transaction) due from Rostelecom were forgiven and written off.

In connection with this transaction the gain of 752 was recognized and included in other non-operating income in the consolidated statement of income (refer to Note 24). The promissory notes to Alfa-Bank are repayable within 36 months in six semi-annual installments, beginning from December 2003, and bear interest of 5.94% per annum. Promissory notes amounting to 982 were included in the current portion of interest bearing loans.

b) This includes the following amounts:

- JPY 9.36 million (3) within a credit line provided by Vneshtorgbank with maximum amount of JPY 105 million open through February 25, 2005. The facility bears annual interest rate of 5.75%. To secure the debt, the Company pledged its telecommunication equipment with carrying value of 43. The final payment date on this credit line is to be not later than February 26, 2007. 3 relates to current portion.

- JPY 880.13 million (242) within a credit line provided by Vneshtorgbank with maximum amount of JPY 880.13 million open through February 25, 2005. The facility bears annual interest rate of 5.75%. To secure the debt, the Company pledged its telecommunication equipment with carrying value of 242. The final payment date on this credit line is to be not later than February 26, 2007. 69 relates to current portion.

c) This includes the following:

- EURO 0.927 million (34) 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 was taken for the purchase of EWCD automatic switches. The loan is secured by guarantee of Government of Russia. 34 relates to current portion.

d) This includes the following:

- 655 on a credit agreement between Rostelecom and RTDC. The loan, with principal amount of 777, was assigned by RTC-Leasing to RTDC in accordance with the assignment agreement entered into in December 2003. Total amount relates to current portion. The loan was fully repaid in April 2004 (refer to Note 34).

As of December 31, 2003 and 2002, the weighted average interest rates of loans were 6.3% and 11.7%, respectively. Under IAS 39, “Financial Instruments: Recognition and Measurement”, loans should be reflected in the financial statements 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 interest bearing loans 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 October – November 2002, the Group early extinguished the loan payable to Siemens AG of EURO 31.6 million (986 at the exchange rate as of December 31, 2002). The transaction involved RTCL Cyprus and T&IB Equities (Cyprus) Limited, the subsidiary of the commercial bank Trust Bank (Russia). Gain from the transaction of 230 was included in other non-operating income in the consolidated statement of income for the year ended December 31, 2002 (refer to Note 24).

There are no specific affirmative or negative covenants (including financial covenants) under the existing loan agreements. There were no loans in default as of December 31, 2003.

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. The early redemption option was not exercised by the bonds' holders. Annual interest on bonds is 18% and 16% for the first and second years, respectively, payable semi-annually. Interest accrued up to December 31, 2002 was included in short-term borrowings as of December 31, 2002. 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. The outstanding amount of bonds as of December 31, 2003 was nil due to disposal of the subsidiary.

20. INCOME TAXES

The components of net deferred tax assets and liabilities at December 31, 2003 and 2002, and the respective movements during 2003, were as follows:

	December 31, 2002	Movement during the year	December 31, 2003
Tax effects of future tax deductible items:			
Accounts payable and accrued liabilities	224	70	294
Accounts receivable	-	37	37
Investment valuation difference	-	44	44
Other	-	3	3
Gross deferred tax asset	**224**	**154**	**378**
Tax effects of future tax liability items:			
Property, plant and equipment, net	8,704	(1,014)	7,690
Accounts receivable	192	(192)	-
Investment valuation difference	449	(449)	-
Leasing arrangements	1,015	(620)	395
Other	167	(167)	-
Gross deferred tax liability	**10,527**	**(2,442)**	**8,085**
Net deferred tax liability	**10,303**	**(2,596)**	**7,707**

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 and profits tax purposes. The tax effect of these temporary differences is recorded at the rate of 24%, 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, 2003:

	2003
Deferred tax benefit (Note 25)	1,721
Deferred tax benefit of disposed subsidiaries	373
Deferred tax liabilities of acquired subsidiaries	(71)
Deferred tax liabilities of disposed subsidiaries	441
Deferred tax benefit allocated to discontinued operations (refer to Note 23)	132
Total movement during the year	**2,596**

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, 2003 and 2002 were as follows:

	2003	**2002**
Income tax payable	(118)	(184)
Income tax receivable	433	818

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

21. REVENUE

Revenue comprised the following for the years ending December 31, 2003, 2002 and 2001:

	2003	2002	2001
Revenue from local operators			
Telephone - international	5,171	5,025	5,364
Telephone - national	9,292	5,895	5,016
Other income from local operators	1,952	1,838	1,760
	16,415	**12,758**	**12,140**
Revenue from subscribers			
Telephone - international	3,027	3,462	4,951
Telephone - national	3,678	3,513	3,697
Internet access	1,060	849	-
Rent of telecommunications channels to subscribers	853	712	639
Television and radio transmission	584	546	558
Cellular services	117	89	-
	9,319	**9,171**	**9,845**
Revenue from foreign operators			
Telephone	3,871	4,250	6,018
Telex, telegraph and other	431	622	571
Rent of telecommunications channels	181	228	263
	4,483	**5,100**	**6,852**
Other revenue	1,673	860	1,236
Total revenue	**31,890**	**27,889**	**30,073**

Effective August 1, 2003, the Anti-Monopoly Ministry abolished the use of the Integral Settlement Rate (“ISR”) for settlements between Rostelecom and other domestic operators. Under the new settlements system, Rostelecom began to bill other operators originating domestic long-distance (“DLD”) calls using the Linear Settlement Rate (“LSR”) regulated by the Anti-Monopoly Ministry of the Russian Federation and to pay to other operators terminating the calls the termination fee calculated using the Termination Settlement Rate (“TSR”) also regulated by the Anti-Monopoly Ministry.

Prior to August 1, 2003, revenues and expenses related to DLD calls were recognized on the basis of ISR, i.e. on the net basis. The introduction of the new settlements system represents a change in business practice resulting in new accounting for changed practice. The pro-forma information calculated on the basis of the new settlement system as if it was applied effective January 1, 2001 is presented below.

	2003 (unaudited)	2002 (unaudited)	2001 (unaudited)
Revenue from local operators: telephone - national	12,396	11,159	8,239
Charges by network operators - national	(7,623)	(6,985)	(5,497)

22. SEGMENT INFORMATION

In years prior to 2002, the Group operated in one industry segment, being the provision of intercity and international telecommunication services in the Russian Federation. There were no banking and investing operations, while leasing operations outside the Group were immaterial.

In 2002 and the most part of 2003, the Group operated in three industry segments, net income of which is presented below:

	Telecommunications	Leasing	Banking and Investing
2003	3,639	(3,036)	(73)
2002	2,929	(2,776)	525
2001	6,872	(2,265)	-

As a result of divestiture of business of RTC-Leasing and discontinuance of the leasing, banking and investing segments (refer to Notes 7 and 23), effective December 1, 2003 the Group operates in one industry segment, being the provision of intercity and international telecommunication services in the Russian Federation. The results of this segment and assets and liabilities as of December 31, 2003 are presented in the consolidated statements of income and the consolidated balances sheet, respectively.

The aggregate leasing and banking and investing segments' results, assets and liabilities are presented in Note 23.

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, 2003, 2002 and 2001 is as follows:

	Russia	CIS	USA	Western Europe	Eastern Europe	Others	Total
2003	26,767	2,926	220	862	252	863	31,890
2002	22,789	2,846	403	881	240	730	27,889
2001	23,221	3,752	375	1,448	419	858	30,073

Leasing and banking and investing segments' revenue was principally earned in Russia.

The Group had no individual customers, other than the Government of the Russian Federation and its related parties (see Note 29), that accounted for greater than 10% of its revenue during the years ended December 31, 2003, 2002 and 2001.

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

23. DISCONTINUED OPERATIONS

As part of management's efforts to concentrate on the Company's core business segment and as part of the Company's drive to decrease total debt, effective December 1, 2003, the Company discontinued two of its components represented by the leasing and banking and investing business segments. The operations in these business segments were conducted through RTC-Leasing and its subsidiaries.

The results of operations and loss on discontinuance of the above mentioned business segments of 3,109, net of income tax expense of 343, was included in the accompanying consolidated statement of income for the year ended December 31, 2003 and reported in discontinued operations. The comparative results of operations of the discontinued segments for the years ended December 31, 2001 and 2002 are re-presented in the accompanying statements of income, to conform to the current year presentation.

In February 2002, RTC-Leasing performed an additional issuance of ordinary shares which was made in accordance with trilateral agreement (the "Shareholders' Agreement") between Rostelecom and non-state pension fund Rostelecom-Garantiya (the initial shareholders in RTC-Leasing), RTC-Leasing and a consortium of new shareholders in RTC-Leasing (the "Consortium"). After this additional issuance of shares, Rostelecom, Rostelecom-Garantiya and the Consortium owned 32.27%, 3.60% and 64.13%, respectively, of outstanding ordinary voting shares of RTC-Leasing.

Under the Shareholders' Agreement, the control over RTC-Leasing was to pass to the Consortium after the latter performs certain actions intended to increase capitalization and investing attractiveness of RTC-Leasing. The Shareholders' 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.

To define specific obligations of the Consortium, the parties re-negotiated the terms of the Shareholders' Agreement and signed in May 2003 an additional agreement (the "Additional Agreement") which stipulated that the Consortium is obliged to perform certain actions which should have resulted in the following within timeframe specified:

- Decreasing Rostelecom's future lease payments to RTC-Leasing by the amount not less than 1,800, including 300 of VAT, within 6 months;
- 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;
- Cancellation of all guarantees and pledges provided by Rostelecom in respect of loans payable by RTC-Leasing within 12 months.

Rostelecom continued to maintain control over RTC-Leasing through its right to appoint the majority of the board of directors of RTC-Leasing until the Consortium fulfills its obligations under the Additional Agreement. In addition, Rostelecom and Rostelecom-Garantiya had the right to purchase from the Consortium at par value all the shares in RTC-Leasing issued to the Consortium if the Consortium did not fulfill its obligations on decreasing future lease payments and selling of shares by November 30, 2003.

The discontinuance of the leasing and banking and investing business segments was executed in a series of transactions that constituted an exchange, involving cash consideration, by the Company of its controlling interest in RTC-Leasing to an additional interest in certain items of telecommunications equipment previously owned by RTC-Leasing. To execute this the following actions were undertaken.

On October 24 and 27, 2003, Rostelecom sold all of its shares in RTC-Leasing to the third party for 740.

On October 2, 2003 and on December 26, 2003, Rostelecom and RTC-Leasing signed agreements restructuring the future lease payments of Rostelecom to RTC-Leasing of 6,018, including VAT of 918. Before the restructuring, the liabilities were payable through 2012. As a result of the restructurings, 3,705 became due on January 28, 2004, and 2,313 became due on January 30, 2034.

Before December 31, 2003, Rostelecom effectively paid to RTC-Leasing the amount of 3,520 by purchasing promissory notes issued by RTC-Leasing. The amount due under the promissory notes was offset against the restructured lease obligation due on January 28, 2004.

On January 29, 2004, Rostelecom and RTC-Leasing signed an agreement replacing the restructured lease obligation of 2,313 due in 2034 with a loan payable by Rostelecom to RTC-Leasing in 2038 bearing interest at a rate of 0.1% per annum. Upon execution of this step, the title to the equipment passed from RTC-Leasing to Rostelecom.

On February 12, 2004, Westelcom and RTC-Leasing executed a loan assignment agreement under which Westelcom purchased from RTC-Leasing all rights to the loan for 368, including VAT of 57.

Managements of Rostelecom and RTC-Leasing finalized negotiating the above series of transactions by December 1, 2003. On December 1, 2003, the Company accepted the performance by the Consortium of its obligations under the Additional Agreement. The settlements continued through April 2004 due to the timing requirements for formal approvals of certain transactions.

The results of operations and cash flows of RTC-Leasing were included in the accompanying consolidated financial statements through December 1, 2003. Net income of the discontinued business segments for the period starting from late October 2003, the date the Company transferred legal ownership of its voting shares of RTC-Leasing, through December 1, 2003 was allocated to minority interest in full. Amounts payable by the Company to RTC-Leasing were recorded in the accompanying consolidated balance sheet as of December 31, 2003 at fair value determined as actual amounts paid by Rostelecom and Westelcom to RTC-Leasing in January-April 2004.

The accompanying statements of income for the years ended December 31, 2003, 2002 and 2001 include as discontinued operations the post-tax results of operations of the discontinued business segments, which comprised the following:

	2003	**2002**	**2001**
Revenue	837	252	196
Operating expenses	(577)	(431)	(513)
Other losses, net of gains	(1,021)	(329)	(1,037)
Loss before tax and minority interest	**(761)**	**(508)**	**(1,354)**
Income tax expense	(300)	(590)	(589)
Minority interest in the results of discontinued operations	(650)	(1,153)	(322)
Loss recognized on disposal	(804)	-	-
Income tax expense recognized on disposal	(175)	-	-
Write-down of carrying amount of additional interest in fixed assets acquired to fair value	(551)	-	-
Income tax benefit recognized on the write-down to fair value	132	-	-
Net loss from the discontinued operations	**(3,109)**	**(2,251)**	**(2,265)**

The write-down of property, plant and equipment in the amount of 551 represents the difference between the carrying amount of the telecommunication equipment, as restated for hyperinflation (refer to Note 4), and its respective fair value determined by the reference to the replacement cost of this equipment.

The net cash flows for the years ended December 31, 2003, 2002 and 2001 pertaining to the discontinued business segments as reported in the accompanying consolidated statements of cash flows, were as follows:

	2003	2002	2001
Cash flows from the discontinued operations:			
Net cash used in operating activities	(7,362)	(5,858)	(3,379)
Net cash (used in)/ provided by investing activities	(2,380)	596	(126)
Net cash provided by/ (used in) financing activities	7,011	2,062	(1,069)

Total assets and liabilities of discontinued operations other than cash and cash equivalents as of December 1, 2003 (before the disposition) and December 31, 2002 as reported in the accompanying consolidated financial statements, were as follows (by major categories):

	December 1, 2003	December 31, 2002
Lease receivables, non-current portion	10,411	4,759
Long-term investments	132	742
Other non-current assets	1,242	490
Lease receivables, current portion	2,257	2,843
Other current assets	4,652	2,687
Total assets	**18,694**	**11,521**
Interest bearing loans, non-current portion	(5,192)	(2,042)
Other long-term liabilities	(477)	(991)
Interest bearing loans, current portion	(7,033)	(3,126)
Other current liabilities	(2,265)	(2,853)
Total liabilities	**(14,967)**	**(9,012)**

Cash and cash equivalents as of December 1, 2003 in subsidiaries disposed of were as follows:

Cash and cash equivalents of RTC-Leasing and its subsidiaries	1,057
Cash and cash equivalents held by Rostelecom in RIB	(408)
Total cash disposed of	**649**

24. OTHER NON-OPERATING INCOME, NET

Other non-operating income consisted of the following for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Unrealized gain on available-for-sale investments	69	41	48
Fair value of contributions received	316	103	-
Gain on extinguishment of loans payable (refer to Note 18)	752	230	-
Other non-operating gain / (loss), net	82	(74)	55
Total other non-operating income, net	**1,219**	**300**	**103**

In July 2003, the Company received telecommunication equipment from a company, which is not a related party, free of charge. Fair value of the equipment was estimated as equal to 316. 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.

In October 2002, the Company received telecommunication equipment from a 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.

25. INCOME TAX EXPENSE

The components of income tax expense for the years ended December 31, 2003, 2002 and 2001 were as follows:

	2003	2002	2001
Current tax charge	2,002	2,363	2,305
Deferred tax benefit (Note 20)	(1,721)	(1,530)	(3,936)
Share in income taxes of associates (Note 8)	92	115	161
Income tax expense /(benefit)	**373**	**948**	**(1,470)**

The reconciliation of the theoretical amount that would arise using the Russian statutory rates (24% for 2003 and 2002 and 35% for 2001) to the total actual income tax were as follows for the years ending December 31, 2003, 2002 and 2001:

	2003	2002	2001
Income tax expense at statutory rate	980	911	1,891
Non-temporary elements of monetary loss	-	1,439	3,186
Effect of change in tax rate on deferred tax balance	-	-	(4,899)
Effect of lease arrangements between Rostelecom and RTC-Leasing	(620)	(931)	(2,930)
Non-deductible expenses	261	973	3,643
Other non-temporary differences	(248)	-	-
Inflation effect on deferred tax balance at beginning of year	-	(1,444)	(2,361)
Income tax expense /(benefit)	**373**	**948**	**(1,470)**

Other non-deductible expenses comprise various costs that are non-deductible for Russian profits tax purposes, including depreciation of certain property, plant and equipment, certain employee costs, promotional and sponsorship expenditures, travel expenditures in excess of certain statutory allowances and other expenses.

26. EMPLOYEES

The numbers of employees of the Group was equal to 26,742 as at December 31, 2003 (2002: 31,729).

The Group makes payments to the Government pension fund for its employees. Such contributions are calculated using regressive scale and are charged to expense when incurred during the employee’s service period.

The Group 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 not less than two months' salary at the date of retirement. These obligations, which are unfunded, represent obligations under a defined benefit pension scheme. An accrual of 80, representing the net present value of the future benefits the Group expected to be paid, was included in compensation related accruals as of December 31, 2002. As of December 31, 2003, the Company ceased to use this pension plan and settled all its obligations. In relation to the plan curtailment, a gain of 121 was recognized and deducted from wages, salaries, other benefits and payroll taxes in consolidated statement of income for the year ended December 31, 2003.

In addition, the Company participates in the non-state Joint Participation Program which is a pension plan with defined contributions. To participate in the program, individuals should be full-time employees of the Company and should enter into non-state pension insurance agreement with NPF "Telecom-Soyuz", which is the successor of NPF "Rostelecom-Garantiya".

The Company also offers certain of its employees termination benefits which are payable by the Company to the pension fund upon employee's acceptance of voluntary termination pursuant to the offer.

Total expenses of the Group related to the non-state pension plans amounted to 148 during the year ended December 31, 2003 (2002: 85, 2001: 167) and are included in wages, salaries, other benefits and payroll taxes in the accompanying consolidated statements of income.

27. EARNINGS PER SHARE

In accordance with IAS 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 220 (2002: 443, 2001: 4,483) divided by the weighted average number of ordinary shares outstanding during the year of 728,696,320. Dividends on preferred shares are fully attributable to earnings from continuing operations.

There are no potentially dilutive securities, therefore, diluted earnings per share equal basic earnings per share.

Refer to Note 5 for the effects of application IAS 33, as revised, on earnings per share.

28. 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.

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.

29. RELATED PARTY TRANSACTIONS

(a) The Government and OAO Svyazinvest as a shareholder

As indicated in Note 1, the immediate parent company of the Company is OAO 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% less one share of the voting capital of OAO Svyazinvest and, therefore, is the ultimate owner of the Company. It is a matter of the Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

In the past, a number of Government statements have indicated that it is considering restructuring the telecommunications sector controlled by OAO Svyazinvest. No action with respect to the Group has so far been taken (refer to Note 31).

(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 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 Federal Anti-Monopoly Service (former the Anti-Monopoly Ministry), has the general authority to regulate domestic tariffs, and does regulate tariffs. The Ministry of Information Technologies and Telecommunications of the Russian Federation 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.

The Group also consumes design services from certain companies of the Svyazinvest Group which are included in 2003 in additions of property, plant and equipment in amount of 37 (2002: nil).

The Group makes certain contributions to non-for-profit organizations which are companies of the Svyazinvest Group.

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

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

	2003	2002	2001
Revenue	13,218	9,376	8,047
Lease revenue (included in loss from discontinued operations)	472	18	-
Charges by network operators - national	(3,379)	(264)	(144)
Administration and other costs	-	(160)	-
Contributions to non-for-profit organizations (included in administration and other costs)	(54)	(94)	(120)

In addition, OAO Svyazinvest participates in the dividends declared by the Company, commensurate with its shareholding.

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

	2003	2002
Lease receivables – non-current portion	-	972
Lease receivables – current portion	-	688
Long-term financial investments	-	140
Short-term investments	16	69
Amounts owed to customers	-	(662)
Accounts receivable, net	2,244	1,879
Accounts payable	(192)	-

(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 rent of telecommunication channels for which the Group charges below market rates.

The Company makes certain contributions to State Research and Development Funds.

The amounts of revenue and expenses relating to the transactions with the Government were as follows:

	2003	2002	2001
Revenue	1,388	1,211	571
Contributions to State Research and Development Fund (included in administration and other costs)	(65)	(102)	(48)

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

	2003	2002
Accounts receivable, net	651	563
Accounts payable	(22)	-

(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 of telecommunication equipment and the provision of pension arrangement to employees.

A summary of these transactions is as follows:

	2003	**2002**	**2001**
Revenue	796	666	872
Lease income (included in loss from discontinued operations)	-	-	74
Charges by network operators – national	(126)	(26)	(437)
Contribution in pension fund included in wages, salaries, other benefit and payroll taxes	(148)	(85)	(167)

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

	2003	**2002**
Accounts payable and accrued expenses	(44)	(12)
Accounts receivable, net	143	109
Loans receivable	-	60
Payable to pension fund (included in compensation related accruals)	(30)	(80)

(f) Directors' remuneration

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

Until June 1, 2003	**Until December 31, 2003**
Yashin V.N.	Yashin V.N.
Belov V.Y.	Avdiyants S.P.
Yemelianov N.P.	Belov V.Y.
Kuznetsov S.I.	Yemelianov N.P.
Lopatin A.V.	Kuznetsov S.I.
Osipchuk A.I.	Lopatin A.V.
Panchenko S.N.	Panchenko S.N.
Polischuk V.A.	Polischuk V.A.
Ragozina I.M.	Ragozina I.M.
Slipenchuk M.V.	Slipenchuk M.V.
Finger G.M.	Yurchenko E.V.

In 2003, the total remuneration of the directors amounted to 39 (2002: 21, 2001: 5).

(g) Other related party transactions

In June-August 2003, in order to redeem its liability to Vietnam Telecom, the Company paid to OAO Svyazbank, acting in the capacity of the agent of an unrelated party, USD 15.1 million (462 at the exchange rates at the dates of settlement). Certain managers of the Company and OAO Svyazinvest are directors of OAO Svyazbank.

In 2002 and 2003 the Company purchased software from ZAO Peter-Service, net book value of which amounted to 142 and 133 as of December 31, 2003 and 2002, respectively. Also during 2003 the Company incurred additional expenses in relation to this software in amount of 11 which were included in administration and other costs in the accompanying statement of income for the year ended December 31, 2003. Prepayments made to ZAO Peter-Service included in the accompanying balance sheet amounted to 27 and nil as of December 31, 2003 and 2002, respectively. Certain directors of the Company are directors of the company that controls ZAO Peter-Service.

30. CAPITAL COMMITMENTS

The Group's capital expenditure program approved by the Board of Directors for the year ending December 31, 2004 projects capital expenditures of 5,237.

31. CONTINGENCIES

a) 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.

As a result of the recently performed comprehensive tax inspection covering the periods of 1999, 2000 and 2001, the Ministry of Taxes and Levies of the Russian Federation assessed 2,488 of additional taxes, including fines and penalties payable by Rostelecom. In the opinion of the management of the Group, the tax positions taken by the Company are appropriate, and the Company will prevail in court. Management cannot measure reliably the total amount of potential losses. Accordingly, no accrual has been made for the assessment in the accompanying consolidated financial statements as of December 31, 2003 and for the year then ended.

b) 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.

In 2003 the Accounting Chamber of Russian Federation started the inspection of Svyazinvest and its subsidiaries, including the Company. At the date of approval of these financial statements the inspection was not completed. Consequently there is uncertainty regarding to results of the inspection and the conclusions made on its basis. Management cannot measure reliably the total amount of

potential losses. Accordingly, no accrual has been made for the results of the inspection in the accompanying consolidated financial statements as of December 31, 2003 and for the year then ended.

c) Licenses

Substantially all of the Company's revenues are derived from operations conducted pursuant to licenses granted by the Russian Government. These licenses expire in various years ranging from 2004 to 2013. The Company has no reasons 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.

In August 1996, the Company was granted three cellular licenses for operation in the 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 these three licenses. No payments were made as of December 31, 2003.

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. According to the latest Government announcements in view of entrance of Russia to World Trade Organization the change of the Group's status as a monopoly supplier of long distance and international communications will occur in 2007 at the earliest.

In addition to industry restructuring plans, the Government announced plans to privatize Svyazinvest in 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.

f) Asset retirement obligations

The Company may incur cost related to retirement of telecommunication lines and other assets and restoration of environment. Such costs may arise in connection with registration of title by landlords based on the Land Code of the Russian Federation, which came into force effective 2001. The management believes that occurrence of such events is unlikely. In addition, the timing and amount of such costs may not be identified and measured reliably. Therefore, such costs will be recognized as expense when they are incurred.

32. CREDIT RISK MANAGEMENT

A portion of the Group's accounts receivable is from the State and other public organizations. Collection of these receivables is influenced by political and economic factors. Management believes there were no significant unprovided losses relating to these or other receivables at December 31, 2003.

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 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 held.

33. 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.

34. SUBSEQUENT EVENTS

In January 2004, the Group redeemed short-term accounts payable to RTC-Leasing by a cash payment of 152. In April 2004, the Group redeemed the remaining part of liabilities to RTC-Leasing for a cash payment of 368 (refer to Note 23).

In April 2004, the Group early extinguished its obligations under the credit agreement with RTDC. The amount paid to RTDC was 695.

In April 2004, the Company entered into credit line agreement with ING-Bank with maximum amount of EURO 7 million. The credit line is EURO denominated and carries interest rate of EURIBOR plus 0.875% per annum. Amounts drawn by the Company in April 2004 amounted to EURO 4.4 million (150 at the exchange rate as of April 9, 2004 and April 26, 2004) and were used for purchase of equipment. The amounts drawn are to be repaid within 5 years.

35. DIFFERENCES BETWEEN INTERNATIONAL FINANCIAL REPORTING STANDARDS AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards which differ in certain respects from accounting principles generally accepted in the United States of America ("US GAAP").

As described in Note 5, certain property, plant and equipment has been recorded at a valuation amount in accordance with IFRS rather than at historical cost, which is required under US GAAP. The Group was unable to quantify the effect of the difference in accounting treatment as reliable historical cost information and information regarding acquisition dates was not available.

The principal differences between IFRS and US GAAP are presented below together with explanations of certain adjustments that affect total shareholders' equity and net income as of and for the years ended December 31, 2003, 2002 and 2001.

Reconciliation of net income (loss)

	2003	2002	2001
Net income reported under IFRS	**530**	**678**	**4,607**
US GAAP adjustments:			
Reversal of impairment of property, plant and equipment (a)	(800)	(602)	(554)
Deferred tax effects of reversal of impairment of property, plant and equipment (a)	146	100	473
Unrealized gains on available-for-sale investments, net of tax (b)	(1)	(41)	(48)
Pension expense, net of tax (c)	(30)	(20)	(20)
Impact of difference in accounting for investments acquired for resale, net of tax and minority interest (d)	22	(22)	-
Impact of goodwill amortization, net of minority interest (d)	92	35	-
Partial gain recognition, net of tax (e)	-	(3)	-
Reversal of impairment on investment in equity method investee, net of tax (f)	52	(52)	-
Total	(519)	(605)	(149)
Net income under US GAAP	**11**	**73**	**4,458**

Earnings per common share

Basic income per common share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. In accordance with Statement on Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share", income available to common shareholders is calculated by deducting dividends declared in the period on preferred shares (whether or not paid) from the net income for the period.

Preferred shares carry dividends amounting to the higher of 10% of the net income after taxation of the Company as reported 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 partly) dividends on preferred shares has been taken.

	2003	**2002**	**2001**
Net income from continuing operations under US GAAP	3,046	2,346	6,723
Dividends on preferred shares	(310)	(235)	(124)
Net income from continuing operations applicable to common shareholders under US GAAP	2,736	2,111	6,599
Weighted average number of ordinary shares outstanding	728,696,320	728,696,320	728,696,320
Net income from continuing operations per share – basic and diluted	**3.75**	**2.90**	**9.06**
Net loss from discontinued operations under US GAAP	(3,035)	(2,273)	(2,265)
Weighted average number of ordinary shares outstanding	728,696,320	728,696,320	728,696,320
Net loss from discontinued operations per share – basic and diluted	**(4.16)**	**(3.12)**	**(3.11)**
Total net income under US GAAP	**11**	**73**	**4,458**
Net (loss) / income per share – basic and diluted	**(0.41)**	**(0.22)**	**5.95**

Basic and diluted earnings per share are the same for all periods presented as there are no ordinary shares equivalents.

Reconciliation of shareholders' equity

	2003	**2002**
Total shareholders' equity under IFRS	**48,857**	**49,033**
US GAAP adjustments:		
Reversal of impairment of property, plant and equipment, net of related deferred tax liability (a)	4,706	5,360
Pension obligations, net of tax (c)	-	30
Impact of difference in accounting for investments acquired for resale, net of tax and minority interest (d)	-	(22)
Impact of goodwill amortization, net of minority interest (d)	127	35
Partial gain recognition, net of tax (e)	(3)	(3)
Reversal of impairment on investment in equity method investee, net of tax (f)	-	(52)
Total	4,830	5,348
Total shareholders' equity under US GAAP	**53,687**	**54,381**

(a) Reversal of impairment on property, plant and equipment

In 1998, in accordance with IAS No. 36, "Impairment of Assets", the Group recognized an impairment loss of 8,699 on its property, plant and equipment other than construction in progress. The impairment loss was calculated based on the present value of estimated future cash flows from the continued use of the assets using a real-terms (inflation adjusted) discount rate of 20%.

IAS No. 36 requires an assessment of the recoverable amount of an asset whenever there is an indication that the Group's assets may be impaired. Management believed that the Russian economic crisis in 1998 constituted such an indication.

Under US GAAP, SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (superseded by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", effective for financial statements issued for fiscal years beginning after December 15, 2001), requires an initial assessment of impairment based on undiscounted cash flows whenever there is an indication that impairment may exist. Due to the fact that the sum of undiscounted expected future cash flows was in excess of the carrying amount of the Group's property, plant and equipment as of December 31, 1998, an impairment loss was not recognized for US GAAP reporting purposes. Management considers that all of the Group's property, plant and equipment, with the exception of construction in progress, represent the lowest level for which there are largely independent and identifiable cash flows.

Since no impairment loss was recognized under US GAAP in 1998, a different asset base is used to compute US GAAP depreciation expense, loss on disposal of property, plant and equipment and the related deferred tax liability commencing 1999.

Based on management's analysis, the sum of undiscounted expected future cash flows was in excess of the carrying amount of the Group's property, plant and equipment as of December 31, 2003, 2002 and 2001, thus, no impairment loss was recognized under US GAAP.

Deferred tax effect was computed using tax rate of 24% for 2003, 2002 and 2001. Deferred tax benefit recognized on reversal of impairment on property, plant and equipment in 2003, 2002 and 2001 represents the effects of reversal of the temporary differences associated with disposals and additional depreciation. In 2001, deferred tax benefit also includes the benefit of 346 representing the effect of the change in tax rate effective from 2002 from 35% to 24%.

(b) Unrealized gains on available-for-sale investments

In accordance with IAS No. 39, "Financial Instruments: Recognition and Measurement", gains or losses from change in the fair value of securities classified as available-for-sale investments are included in net profit and loss for the period in which they arise.

Under US GAAP, SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", provides that such available-for-sale securities are reported at fair value with unrealized gains and losses, net of tax, to be excluded from earnings and reported as a separate component of comprehensive income. Unrealized gains and losses represent the net change in fair value of investments classified as available-for-sale. Declines in value of available-for-sale securities judged to be other than temporary are recognized in the statement of operations.

(c) Pension expense and obligations

The Company makes certain payments to employees on retirement. This obligation is substantially similar to that typically existing under a defined benefit pension scheme.

IAS No. 19, "Employee Benefits", was issued by the International Accounting Standards Board to revise existing standards relating to retirement benefits cost, and became effective for the financial statements beginning on or after January 1, 1999. In accordance with US GAAP, similar issues are covered by SFAS No. 87, "Employer's Accounting For Pensions". Under both standards, pension expense is based upon a specified methodology that includes a designated actuarial approach and reflects the concept of accrual accounting. Pension expense is reflected in the consolidated statement of income systematically over the working lives of employees covered by the plan. Plan amendments (including initiation of a plan) often include provisions that grant increased benefits based on services rendered in prior periods. Because plan amendments are granted with the expectation that the employer would realize economic benefits in future periods, SFAS No. 87 does not require the cost of providing such retroactive benefits (that is, prior service cost) to be included in net periodic pension cost entirely in the year of the amendment. SFAS No. 87 provides for recognition of prior service cost during the future service periods of employees who are expected to receive benefits under the plan.

In accordance with IAS 19, prior service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested (i.e. become no longer conditional on future employment). To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognize prior service cost immediately.

As of December 31, 2002, prior service cost as recorded in IFRS accounts have been fully recognized. In US GAAP accounts, unrecognized transition amounts were amortized over 20 years.

As of December 31, 2003 the Company ceased to use this pension plan. All existing obligations were settled. In relation to this transaction a gain of 121 was recognized in IFRS accounts. In US GAAP accounts, the Company recognized a gain of 111.

The details of net periodic pension cost (benefit) included in the Group's US GAAP net income for 2003, 2002 and 2001 are presented below.

	2003	**2002**	**2001**
Service cost	7	5	8
Interest on projected benefit obligation	16	30	43
Net amortization of transitional amount	20	20	20
Actuarial losses/ (gains) recognized in year	23	(100)	(102)
Gain on curtailment of the pension plan	(111)	-	-
Net periodic pension benefit	**(45)**	**(45)**	**(31)**

The following tables set forth the status of the Group's obligations under defined benefit pension plans and the amounts that would be recognized in the Group's consolidated balance sheets in accordance with US GAAP as of December 31, 2003 and 2002.

	2003	**2002**
Accrued pension cost at beginning of year	50	100
Net periodic pension benefit	(45)	(45)
Paid during the year	(5)	(5)
Accrued pension cost at end of year	**-**	**50**

	2003	**2002**
Projected benefit obligations	-	174
Plan assets at fair value	-	-
Deficit of plan assets over projected benefit obligation	**-**	**174**
Unrecognized net transition amount	-	(124)
Accrued pension cost	**-**	**50**

In calculating projected benefit obligations as of December 31, 2002, the Group assumed weighted average discount rate in determining present values being equal to 20%.

(d) Accounting for investments in associates

In accordance with IAS No. 28, "Accounting for Investments in Associates", an investment in associate that is acquired and held exclusively with a view to its disposal in the near future should be accounted for as an available-for-sale financial asset in accordance with IAS 39, "Financial Instruments: Recognition and Measurement".

As described in Note 13, in 2002, the Group acquired and, in 2003, sold certain investments which in the normal course of business would qualify for equity method accounting. In IFRS accounts these investments were classified and accounted for as available-for-sale and their fair value as of December 31, 2002 was 1,632. Negative goodwill attributable to these investments of 455 was included in the current portion of negative goodwill as of December 31, 2002.

Effective January 1, 2002, SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets", eliminated the exception to application of the equity method for an investment in associates where significant influence is likely to be temporary. Accordingly, in US GAAP accounts, the investments in these associates were accounted for using equity method of accounting applied from the date of the business combination with RTDC Holdings, Inc. As of December 31, 2002, the carrying amount of 1,071 related to the Group's investment in these associates was included in US GAAP balance sheet. The Group's share in net income /(loss) of these associates amounted to 157. Amount of (22) reported in the reconciliation of net income and shareholders' equity for 2002 above represents the difference between the amount of gain from changes in the fair value of these available-for-sale investments, recognized in the IFRS accounts, and the amount of equity income, reported under the US GAAP, net of tax and minority interest.

In 2003 these investments were sold (refer to Note 13). Accordingly, the differences in accounting for these investments under IFRS and US GAAP, reported in prior periods, reversed in 2003.

As described in Note 8, during 2002, the Group acquired 15% of voting stock of Golden Telecom, Inc. In the opinion of management, the Group exercised significant influence over financial and operating policies of Golden Telecom. In accordance with IAS No. 28, "Accounting for Investments in Associates", the Group amortized the equity method goodwill related to its investment in Golden Telecom over its estimated useful life of 8 years. During 2002, in its IFRS accounts, the Group recognized related amortization expense in the amount of 32. Also, during 2002, in its IFRS accounts, the Group recognized goodwill of 42 in connection with certain business combinations and purchases of minority interest. Amortization of related goodwill in 2002 amounted to 3. During 2003 the equity method goodwill related to investment in Golden Telecom recognized in IFRS accounts amounted to 95.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is not amortized and is subject to annual impairment tests in accordance with SFAS No. 142. The Group performed the annual impairment test in respect to recoverability of the carrying amount of goodwill at December 31, 2002 and 2003.

(e) Partial gain recognition

As disclosed in Note 8, during 2002, the Group completed a sale of its 50% interest in EDN Sovintel to Golden Telecom in exchange for a cash payment of US$10 million, no-interest bearing US$46 million promissory note and 15% of then outstanding ordinary shares of Golden Telecom.

In connection with this transaction, in its IFRS accounts, the Group recognized a gain of 1,733, which represented a difference between fair value of the total consideration received and the carrying amount of the investment in EDN Sovintel as of the date of sale, net of direct costs associated with the transaction. Before the sale to Golden Telecom, the Group accounted for its investment in EDN Sovintel using equity method.

In its US GAAP accounts, in accordance with requirements of Emerging Issues Task Force Issue No. 01-02, "Interpretations of APB 29", the Group recognized a gain of 1,730. The difference of 3 between the amount of gain recognized under IFRS and US GAAP pertains to a portion of the gain represented by the economic interest retained by the Group.

(f) Reversal of impairment on investment in equity method investee

During 2002 due to certain changes in management's estimates and in accordance with provisions of IAS No. 36, "Impairment of Assets", in its IFRS accounts the Group recorded a partial reversal of impairment loss of 52, net of tax, recognized in 2001 in connection with its investment in MCC, which is accounted for using equity method.

US GAAP prohibits reversals of previously recognized impairment losses.

As disclosed in Note 8, in 2003, the investment in MCC was sold. Accordingly, all differences in accounting for this investment under IFRS and US GAAP reported in prior periods reversed in 2003.

Investments in associates

The following table presents summarized income statement and balance sheet information of the Group's significant equity method investee, EDN Sovintel, for 2001 and for the period from January 1, 2002 to September 16, 2002 (the date of its disposal, refer to Note 8) and as of December 31, 2001, respectively (translated into Rubles using exchange rate as of December 31, 2002):

	2002	**2001**
Income statement information		
Revenues	3,218	3,677
Operating income	822	945
Net income	607	706
Financial position information		
Current assets	-	1,440
Non-current assets	-	2,009
Current liabilities	-	696
Non-current liabilities	-	101
Net assets	-	2,652

Summarized financial information for 2002 for the Group's unconsolidated investment in GlobalTel was as follows (translated into Rubles using exchange rate as of December 31, 2002):

Income statement information	
Revenues	395
Operating loss	(294)
Net loss	(344)
Financial position information	
Current assets	259
Non-current assets	1,283
Current liabilities	2,417
Non-current liabilities	134
Accumulated deficit	(1,009)

The following table presents summarized income statement and balance sheet information of the Group's significant equity method investee, Golden Telecom, Inc, for 2003 and as of December 31, 2003 (translated into Rubles using exchange rate as of December 31, 2003):

Income statement information	
Revenues	10,619
Operating income	2,054
Net income	1,633
Financial position information	
Current assets	5,542
Non-current assets	15,937
Current liabilities	2,944
Non-current liabilities	1,365
Net assets	17,090

New accounting pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated long-lived asset and is depreciated over the asset's useful life. The liability is accreted to its present value each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, a gain or loss on settlement is recognized. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The adoption of the provisions of SFAS No. 143 did not have a material impact on the Group's results of operations, financial position or cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This statement nullifies Emerging Issues Task Force No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", which required that a liability for an exit cost be recognized upon the entity's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of the provisions of SFAS No. 146 did not have a material impact on the Group's results of operations, financial position or cash flows.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS No. 148 also amends APB Opinion No. 28, "Interim Financial Reporting", to require disclosure about those effects in interim

financial information. The amendments to SFAS No. 123 introduced in SFAS No. 148 are effective for financial statements for fiscal years ending after December 15, 2002. The adoption of the provisions of SFAS No. 148 did not affect the Group's disclosure requirements.

In November 2002, the FASB issued FASB Interpretation, or FIN, No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN No. 45 are effective for financial statements of annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The adoption of the provisions of FIN No. 45 did not have a material impact on the Group's results of operations, financial position or cash flows.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 amended Accounting Research Bulletin No. 51, "Consolidated Financial Statements", and established standards for determining under what circumstances a variable interest, or VIE, should be consolidated with its primary beneficiary. FIN No. 46 also requires disclosure about VIEs that are not required to be consolidated but in which the reporting entity has a significant variable interest. In December 2003, the FASB revised certain implementation provisions of FIN No. 46. The revised interpretation, FIN No. 46R, substantially retained the requirements of immediate application of FIN No. 46 to VIEs created after January 31, 2003. There were no such entities created after January 31, 2003. With respect to older VIEs, the consolidation requirements under FIN No. 46R apply not later than for the first financial year or interim period ending after December 15, 2003, if such a VIE is a special-purpose entity, or SPE, and no later than for the first financial year or interim period ending after March 15, 2004, if such a VIE is not an SPE.

Nonetheless, the requirements to apply the provisions of FIN No. 46R to all SPEs created before February 1, 2003 not later than for the first financial year ending after December 15, 2003 are applicable only to the US domestic filers. As outlined in a letter from SEC Chief Accountant to AICPA, "Regarding Effective Date Provisions of FASB Interpretation No. 46 with Regard to Foreign Private Issuers", dated March 15, 2004, the SEC stated that it would not object to effective dates of FIN No. 46 (and FIN No. 46R) in respect of VIEs created before February 1, 2003 for foreign private issuers having fiscal years ending December 31 and filing their US GAAP accounts only on an annual basis as follows: for SPEs – not later than January 1, 2004 and all other entities – not later than December 31, 2004. The Group is still assessing the impact that FIN No. 46R will have on its results of operations, financial position and cash flows when applied to VIEs created before February 1, 2003.

In April 2003, the FASB issued SFAS No. 149, "Amendment to Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." It is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. All provisions of SFAS No. 149 should be applied prospectively, except as stated further. Provisions related to SFAS No. 133 implementation issues that have been effective for fiscal quarters beginning prior to June 15, 2003, should continue to be applied in accordance with their respective dates. Rules related to forward purchases or sales of when-issued securities or other similar securities should be also applied to existing contracts. The adoption of the provisions of SFAS No. 149 did not have a material impact on the Group's results of operations, financial position or cash flows.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of the provisions of SFAS No. 150 did not have a material impact on the Group’s results of operations, financial position or cash flows.

At the March 17 - 18, 2004 meeting, the EITF Task Force reached a consensus on certain issues related to “participating securities” and the application of the “two-class method” under FAS No. 128, “Earnings per share.” EITF Issue No. 03-6, “Participating Securities and the Two-Class Method Under FASB Statement No. 128,” provides guidance in determining when a security participates in dividends such that the two-class method must be used to calculate earnings per share. EITF Issue No. 06-3 clarifies that undistributed earnings for a period should be allocated to a participating security based on the contractual participation rights of the security to share in those current earnings. Nonetheless, if the terms of a security do not specify objectively determinable, nondiscretionary participation rights, then undistributed earnings would not be allocated based on arbitrary assumptions. Also, if an entity could avoid distributions of undistributed earnings to participating security holders, then no allocation of that period's earnings to the participating security would be made.

As the management of the Group is in a position to influence the amount of dividends to be paid out to the preferred shareholders, the Group’s management determined that the participation rights of the preferred shareholders in the earnings of the Group are not nondiscretionary of the Group. As in the past the Group did not apply the ‘two-class method” to calculate earnings per ordinary share for US GAAP purposes pursuant to similar considerations, the new guidance is not expected to have a material impact on the Group’s disclosure regarding earnings per share.

Consolidated statements of changes in shareholders’ equity and comprehensive income under US GAAP for the years ended December 31, 2003, 2002 and 2001 are as follows:

	Common shares		Preferred shares			Accumulated other	Total
	Number of shares	Share capital	Number of shares	Share capital	Retained earnings	comprehensive income	shareholders' equity
Balance as of January 1, 2001	**728,696,320**	**75**	**242,831,469**	**25**	**50,106**	**223**	**50,429**
Comprehensive income							
Net income	-	-	-	-	4,458	-	**4,458**
Net change in unrealized gain on available-for-sale investments	-	-	-	-	-	48	**48**
Comprehensive income	-	-	-	-	4,458	48	**4,506**
Dividends for 2000	-	-	-	-	(269)	-	**(269)**
Balance as of December 31, 2001	**728,696,320**	**75**	**242,831,469**	**25**	**54,295**	**271**	**54,666**
Comprehensive income							
Net income	-	-	-	-	73	-	**73**
Net change in unrealized gain on available-for-sale investments	-	-	-	-	-	41	**41**
Comprehensive income	-	-	-	-	73	41	**114**
Dividends for 2001	-	-	-	-	(399)	-	**(399)**
Balance as of December 31, 2002	**728,696,320**	**75**	**242,831,469**	**25**	**53,969**	**312**	**54,381**
Comprehensive income							
Net income	-	-	-	-	11	**-**	**11**
Net change in unrealized gain on available-for-sale investments	-	-	-	-	-	1	**1**
Comprehensive income	-	-	-	-	11	1	**12**
Dividends for 2002	-	-	-	-	(706)	-	**(706)**
Balance as of December 31, 2003	**728,696,320**	**75**	**242,831,469**	**25**	**53,274**	**313**	**53,687**