Open Joint Stock Company
"Uralsvyazinform"

Consolidated Financial Statements
as of December 31, 2003

with Independent Auditors' Report

Consolidated Financial Statements

Contents

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying consolidated balance sheet of OAO "Uralsvyazinform" (a Russian open joint-stock company - hereinafter "the Company"), as of December 31, 2003, and the related consolidated statements of operations, cash flows and shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as discussed in paragraphs 4 and 5, we conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As described in Note 11 "Intangible Assets and Goodwill" and Note 13 "Investments in Associates", the Company accounted for the purchase of a subsidiary and an associate based on historical cost of their net assets. The Company did not identify and estimate the fair value of the purchased net assets as required by IAS 22, "Business Combinations". The effect of this departure from IAS 22 on the consolidated financial statements is not estimated.

4. Our report on the financial statement for the year ended December 31, 2002 contained a qualification with respect to departure from IAS 19, "Employment Benefits". As discussed in Note 28 "Pension Plan and Employee Benefits", in 2003 the Company changed its method of accounting for pension liabilities and related expenses and restated its corresponding financial statements for the effect of such change. The Company introduced accounting for pension liabilities and related expenses based on preliminary actuarial estimates. Management did not provide us with sufficient support for the preliminary actuarial estimates. We were therefore unable to satisfy ourselves as to the adjustments, if any, which might have been determined to be necessary had additional evidence been available to better analyze the assumptions and estimates made by management.

5. As described in Note 10 "Property, Plant and Equipment", the Company's accounting records relating to fixed assets are not designed to support their presentation in accordance with IAS 16, "Property, Plant and Equipment", IAS 29, "Financial Reporting in Hyperinflationary Economies" and IAS 36, "Impairment of Assets". As such, certain estimates were made by management to present fixed assets in the accompanying financial statements. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the adjustments, if any, which might have

been determined to be necessary had additional evidence been available to better analyze the assumptions and estimates made by management. This matter caused us to qualify our audit opinion on the financial statements for the year ended December 31, 2002.

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

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

8. Without further qualifying our opinion, we draw attention to Note 1 "Corporate Information" to the consolidated financial statements which discloses that the current liabilities of OAO "Uralsvyazinform" exceeded its current assets by 3,238,356 thousand rubles as of December 31, 2003. Management's plans in regard to this matter are also described in Note 1.

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

June 18, 2004

OAO "Uralsvyazinform"

Consolidated Balance Sheet
As of December 31, 2003

(in thousands of rubles)

	Notes	2003	2002, as restated
ASSETS			
Non-current assets:			
Property, plant and equipment, net	10	31,617,851	26,434,611
Intangible assets and goodwill, net	11	742,604	336,543
Investments in associates	13	349,308	2,650
Long-term investments	15	308,002	235,217
Advances to suppliers of equipment		545,667	448,652
Non-current receivables and other non-current assets		6,425	-
Total non-current assets		**33,569,857**	**27,457,673**
Current assets:			
Inventories, net	16	895,591	790,139
Trade accounts receivable, net	17	1,368,351	1,250,348
Short-term investments	18	147,324	69,833
Prepayments and other current assets	19	2,332,647	2,007,142
Cash and cash equivalents	20	684,809	495,917
Total current assets		**5,428,722**	**4,613,379**
TOTAL ASSETS		**38,998,579**	**32,071,052**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity:			
Share capital, preferred shares	21	940,313	940,313
Share capital, ordinary shares	21	3,875,854	3,875,854
Treasury stock	21	(5,013)	(27,438)
Inflation impact on share capital		3,933,136	3,933,136
Retained earnings and other reserves		9,539,918	8,439,234
Total shareholders' equity		**18,284,208**	**17,161,099**
Commitments and contingencies	29	**-**	**-**
Minority interest	22	**179,455**	**182,084**
Non-current liabilities:			
Long-term borrowings	23	7,778,690	3,626,192
Finance lease obligations	24	753,863	328,866
Pension liabilities	28	609,000	445,000
Equipment contributions		97,412	97,740
Deferred income tax liability	7	2,381,925	2,300,688
Other non-current liabilities		246,948	145,207
Total non-current liabilities		**11,867,838**	**6,943,693**
Current liabilities:			
Trade accounts payable and accrued liabilities	25	3,824,159	2,689,804
Payable to Rostelecom		344,169	287,577
Taxes and payroll related obligations	26	794,015	660,477
Dividends payable		11,206	26,149
Short-term borrowings	23	2,079,208	1,869,292
Current portion of long-term borrowings	23	1,256,520	1,724,986
Current portion of finance lease obligations	24	357,801	525,891
Total current liabilities		**8,667,078**	**7,784,176**
Total shareholders' equity and liabilities		**38,998,579**	**32,071,052**

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

OAO "Uralsvyazinform"
Consolidated Statement of Cash Flows
For the year ended December 31, 2003
(in thousands of rubles)

	Notes	2003	2002, as restated
Revenues	4	**22,006,277**	**17,697,863**
Operating expenses			
Wages, salaries, other benefits and payroll taxes		(6,303,455)	(5,503,822)
Impairment of property, plant and equipment		(19,286)	(87,596)
Depreciation and amortization		(2,651,967)	(2,400,767)
Materials, repairs, maintenance and utilities		(2,019,630)	(1,453,050)
Taxes other than income tax		(384,810)	(472,892)
Interconnection charges – international		(68,566)	(38,944)
Interconnection charges – domestic		(3,296,417)	(2,282,204)
Bad debts expense		(606,805)	(85,906)
Loss on disposal of property, plant and equipment		(73,307)	(112,396)
Other operating expenses	5	(3,144,921)	(2,835,123)
Total operating expenses		**(18,569,164)**	**(15,272,700)**
Operating income		**3,437,113**	**2,425,163**
Income from associates		29,056	4,840
Interest expenses, net	6	(1,316,361)	(776,446)
Income from other investments		3,547	(6,319)
Foreign exchange loss, net		(1,512)	(389,201)
Net monetary gain		-	602,536
Income before taxation and minority interest		**2,151,843**	**1,860,573**
Income tax expense, net	7	**(928,531)**	**(788,786)**
Net income before minority interest		**1,223,312**	**1,071,787**
Minority interest		614	(76,259)
Net income		**1,223,926**	**995,528**
Dividends on preferred shares	9	(144,837)	(71,307)
Net income attributable to ordinary shareholders		**1,079,089**	**924,221**
Basic and diluted earnings per share (Russian Rubles)	8	**0.034**	**0.029**

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

OAO "Uralsvyazinform"
Consolidated Statement of Cash Flows
For the year ended December 31, 2003
(in thousands of rubles)

	2003	**2002, as restated**
Cash flows from operating activities:		
Net income (loss) before taxation and minority interest	2,151,843	1,860,573
Adjustments to reconcile income (loss) to cash generated from operations:		
Foreign currency exchange loss, net	1,512	389,201
Net monetary gain	-	(602,536)
Depreciation and amortization	2,651,967	2,400,767
Loss from disposal of property, plant and equipment	73,307	112,396
Loss (income) from associates	(29,056)	(4,840)
Income from financial assets available for sale	(3,547)	6,319
Interest expense, net	1,316,361	776,446
Bad debt expense	606,805	85,906
Inventory obsolescence reserve	5,682	-
Impairment of property, plant and equipment	19,286	87,596
Operating profit before working capital changes	**6,794,160**	**5,111,828**
Decrease (increase) in trade accounts receivable	(731,232)	(416,545)
Decrease (increase) in other current assets	(325,505)	(1,368,141)
Decrease (increase) in inventories	(111,134)	(249,997)
Increase (decrease) in trade accounts payable and accrued liabilities	1,177,606	1,260,835
Net cash generated from operations	**6,803,895**	**4,337,980**
Interest paid	(927,309)	(643,968)
Income tax paid	(736,534)	(681,630)
Net cash flows provided by operating activities	**5,140,052**	**3,012,382**
Cash flows from investing activities:		
Purchase of property, plant and equipment	(7,240,963)	(3,974,204)
Purchase of intangible assets	(497,399)	(35,775)
Disposal (purchase) of subsidiaries/ associates, net	(316,069)	(478,847)
Disposal (purchase) of other investments, net	(150,276)	(113,411)
Interest received	133,438	36,740
Dividends received	2,131	-
Net cash flows used in investing activities	**(8,069,138)**	**(4,565,497)**
Cash flows from financing activities:		
Cost of purchased treasure stock	(235,849)	-
Revenue received from sales of treasure stock	333,595	-
Proceeds from borrowings	12,595,909	3,772,472
Repayments of borrowings	(11,086,994)	(1,711,908)
Proceeds from debt securities issued	3,000,000	1,000,000
Payments under financial leases	(459,257)	(416,912)
Repayment of vendor financing liabilities	(916,609)	(888,622)
Proceeds from (payment of) other non-current liabilities	101,741	-
Dividends paid	(212,543)	(145,610)
Dividends paid to minority shareholders	(2,015)	-
Net cash flows generated from financing activities	**3,117,978**	**1,609,420**
Monetary effects on cash and cash equivalents	-	(75,892)
Net increase/(decrease) in cash and cash equivalents	**188,892**	**(19,587)**
Cash and cash equivalents at the beginning of the year	**495,917**	**515,504**
Cash and cash equivalents at the end of the year	**684,809**	**495,917**
Non-monetary operations:		
Non-cash additions to property, plant and equipment	**904,652**	**1,176,915**
Equipment contributions	**3,027**	**-**

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

OAO "Uralsvyazinform"

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

(in thousands of rubles)

	Notes	Share Capital: Preferred shares	Share Capital: Ordinary shares	Treasury Stock	Inflation impact on share capital	Retained earnings and other reserves	Total equity
At December 31, 2001 as reported		**940,313**	**3,875,854**	**(27,438)**	**3,933,136**	**7,965,870**	**16,687,735**
Correction of pension liabilities (Note 28)						(280,000)	**(280,000)**
Correction of other errors						(100,585)	**(100,585)**
At December 31, 2001 as restated		**940,313**	**3,875,854**	**(27,438)**	**3,933,136**	**7,585,285**	**16,307,150**
Net income (loss) for the year		-	-	-	-	995,528	**995,528**
Dividends paid	9	-	-	-	-	(141,579)	**(141,579)**
At December 31, 2002 as restated		**940,313**	**3,875,854**	**(27,438)**	**3,933,136**	**8,439,234**	**17,161,099**
Net income (loss) for the year		-	-	-	-	1,223,926	**1,223,926**
Dividends paid	9	-	-	-	-	(198,563)	**(198,563)**
Proceeds received from sales of treasury stock		-	-	258,274	-	75,321	**333,595**
Cost of purchased treasury stock		-	-	(235,849)	-	-	**(235,849)**
At December 31, 2003		**940,313**	**3,875,854**	**(5,013)**	**3,933,136**	**9,539,918**	**18,284,208**

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

(in thousands of rubles)

1. Corporate Information

Authorization of Accounts

The consolidated financial statements of OAO "Uralsvyazinform" and its subsidiaries (the "Company") for the year ended December 31, 2003 were authorized for issue by its appointed General Director and Chief Accountant on June 18, 2004.

The Company

The Company is an open joint stock company incorporated in accordance with the laws of the Russian Federation. The Company was privatized in 1994 and its principal activity is providing local and long-distance and international telephone services (including domestic and international telecommunication services, cellular services of GSM, NMT, and AMPS standards, and paging services), telegraph and data transfer services (including Internet over the territory of Ural region of Russian Federation). Other types of activity of the Company include motor transport repair and maintenance of recreational facilities and other social infrastructure. Associated companies provide cellular services in the Ural Region and Republic of Tatarstan of the Russian Federation.

On October 1, 2002 the Company was reorganized by merging 7 regional operators of Ural federal region. In 2003 structure of the incorporated company included the Headquarters, 7 branches "Elektrosvyaz" of Kurgan region, "Svyazinform" of Chelyabinsk region, "Uraltelecom" of Sverdlovsk region, "Yamalelectrosvyaz", "Tumentelecom", "Khantymansiyskokrtelecom", "Uralsvyazinform" of Perm region.

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

The average number of employees in the Company in 2003 was approximately 37,800 persons.

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

2002 Reorganization

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

(in thousands of rubles)

1. Corporate Information (continued)

2002 Reorganization (continued)

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

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

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

Total assets, liabilities, revenues, and pre-tax income (loss) of the regional operations for the year ended December 31, 2002 are presented below:

	Total assets	Total liabilities	Revenue	Pre-tax Income (loss)
The Company	7,424,170	(6,682,540)	3,602,693	431,514
OAO "Elektrosvyaz" of Kurgan region	1,039,113	(189,855)	510,072	(23,021)
OAO "Svyazinform" of Chelyabinsk region	8,406,344	(2,455,003)	3,546,834	312,167
OAO "Uraltelecom" of Sverdlovsk region	5,648,407	(1,602,569)	3,324,220	202,673
OAO "Yamalelektrosvyaz"	982,178	(499,619)	1,048,472	(11,934)
OAO "Tumentelecom"	3,707,557	(1,400,278)	1,893,112	243,875
OAO "Khantymansiyskokrtelecom"	4,957,099	(1,991,821)	5,045,116	705,299
Eliminations and other adjustments	(93,816)	93,816	(1,272,656)	-
Total	**32,071,052**	**(14,727,869)**	**17,697,863**	**1,860,573**

1. Corporate Information (continued)

Liquidity risk

As of December 31, 2003, the Company's current liabilities exceeded its current assets by 3,238,356 thousand rubles. As a result, significant uncertainties exist as to the Company's liquidity and future capital resources.

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

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

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

Through 2004, the Company anticipates funding from: a) existing cash reserves, b) cash generated from operations, c) other financing from domestic lending institutions, d) household deposits in subsidiary bank. Management also expects to continue to be able to delay payment for certain operating costs to manage its working capital requirements if necessary.

The accompanying financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or any other adjustments that might result should the Company either be unable to continue as a going concern or if the Company was to dispose of assets outside the normal course of its operating plan.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

2. Summary of Significant Accounting Policies (continued)

Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Period Adjustments and Reclassification

In the course of preparation of the consolidated financial statements for the year ended December 31, 2003, the Company discovered certain errors. The effect of such errors was reported as correction of opening balance of Retained earnings.

Certain amounts in the Company’s consolidated financial statements as of December 31, 2002 and for the year ended December 31, 2002 were reclassified to confirm to presentation adopted in current year. Such reclassifications did not have material effect on the corresponding amounts.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to December 31 each year.

Subsidiaries

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

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

Where the purchase method is applied to account for the acquisition of subsidiaries in accordance with IAS 22, identifiable assets and liabilities of subsidiaries are stated at their fair value as of the acquisition date.

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

2. Summary of Significant Accounting Policies (continued)

Subsidiaries (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred from the Company.

The annual financial statements of subsidiaries are prepared for the same reporting periods; whenever necessary, the financial statements of the subsidiaries are adjusted to bring their accounting policies in line with those applied by the Company.

Balances and transactions between the Company and subsidiaries, as well as any income from intercompany transactions are eliminated. Income (loss) from intercompany transactions is

identified and eliminated only in cases where the assets transferred under relevant transactions have not been sold to third parties (i.e. non-Company entities) and are carried in the balance sheet of a Company entity as of the balance sheet date.

Associates

An associate is an entity in which the Company has significant influence, which is usually demonstrated by the Company owning between 20% and 50% of the voting share capital. The Company’s investments in associates are accounted for under the equity method from the beginning of significant influence over the associate until the time when the Company ceases to have such significant influence.

Under the equity method, the book value of investments in an associate represents the Company's interest in the net assets of the associate plus unamortized portion of goodwill.

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

Goodwill

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

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

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

2. Summary of Significant Accounting Policies (continued)

Negative goodwill

Negative goodwill is the excess of the Company's interest in the fair value of acquired assets and liabilities of a subsidiary or an associate at the date of acquisition over the purchase price paid. Negative goodwill is allocated to income on the basis of a review of the circumstances giving rise to it, as follows:

- to the extent that negative goodwill is related to future losses or expenses projected at the date of acquisition it is charged to income in the period when such losses or expenses arise;
- to the extent that negative goodwill is included in acquired amortized assets it is recognized as income on a straight-line basis over the remaining weighted average useful life of such amortized assets; and
- negative goodwill amount in excess of the fair value of all acquired non-monetary assets is directly recognized as income.

Negative goodwill arising from acquisition of an associate is charged to the carrying amount of investments in this associate.
Negative goodwill arising from acquisition of a subsidiary is recognized in the balance sheet as reduction to assets.

Accounting for the Effects of Inflation

Based on the characteristics of the economic situation in Russia, since January 1, 2003, Russia no longer meets the definition of a hyperinflationary economy. Effective January 1, 2003, the Company discontinued the use of IAS 29 “Financial Reporting in Hyperinflationary Economies”. Amounts of all non-monetary assets and liabilities, as well as equity, reported as of December 31, 2002, will be treated as the basis for the carrying amounts in the periods subsequent to December 31, 2002.

The adjustments and reclassifications made to the statutory records for the purpose of IFRS reporting in 2002 included the restatement for changes in the general purchasing power of the ruble in accordance with IAS 29. IAS 29 requires that financial information prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. These adjustments were calculated using conversion factors derived from the Russian Federation Consumer Price Index ("CPI") published by the Russian State Committee on Statistics.

(in thousands of rubles)

2. Summary of Significant Accounting Policies (continued)

Accounting for the Effects of Inflation (continued)

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

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

The main guidelines followed in adjusting the consolidated financial statements as of December 31, 2002 to purchasing power at December 31, 2002 were:

- all amounts were stated in terms of the measuring unit current at December 31, 2002;
- monetary assets and liabilities at December 31, 2002 were not restated as they were already expressed in terms of the monetary unit current at December 31, 2002;
- non-monetary assets and liabilities which were not carried at amounts current at December 31, 2002 and shareholders' equity were restated by applying the relevant conversion factors;
- indexation adjustments to property, plant and equipment applicable to prior periods were credited to the opening balance of “Retained earnings and other reserves” in the accompanying balance sheet;
- all items in the consolidated statements of operations and cash flows were adjusted by applying appropriate conversion factors with the exception of depreciation, amortization and losses from disposal of fixed assets and other assets;
- the effect of inflation on the Company’s net monetary position were included in the consolidated statement of operations as a gain or loss on net monetary position.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currency are translated into rubles at official Central Bank of the Russian Federation (CBR) exchange rates at the year-end.

2. Summary of Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

Transactions denominated in foreign currencies are reported at the CBR rates of exchange at the date of the transaction. Any gains or losses on assets and liabilities denominated in foreign currencies arising from a change in official exchange rates after the date of transaction are recognized as foreign exchange gains or losses.

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

Property, Plant and Equipment

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

Buildings	50 years
Constructions	20 years
Analogue switches	15 years
Digital switches	15 years
Other telecommunications equipment	15 years
Vehicles	5 years
Computers, office and other equipment	5 years

Land is not depreciated.

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

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

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

(in thousands of rubles)

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

The period of validity of the Company’s operating licenses is significantly shorter than the useful lives used for depreciation of the cost of property, plant and equipment. Management believes that the operating licenses will be renewed without significant cost, which would allow the Company to realize the cost of its property, plant and equipment through normal operations.

Equipment Contributions

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

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

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

Intangible Assets

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

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

Research and Development Costs

Research and development costs are expensed as incurred.

2. Summary of Significant Accounting Policies (continued)

Investments

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

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

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

The majority of the Company's investments are in securities that are not actively traded on organized financial markets. Management believes that fair value for these investments approximates their carrying amount.

Inventories

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

Accounts Receivable

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

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in the Company's bank accounts, as well as cash deposits and short-term investments with original maturities of three months or less.

Treasury Shares

Treasury shares are recorded in the balance sheet as a decrease of the shareholders' equity in the amount of the acquisition costs. The Company does not recognize gains/losses from transactions with treasury shares. The differences arising from transactions with treasury shares are charged to the capital accounts.

Interest-Bearing Loans and Borrowings

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

2. Summary of Significant Accounting Policies (continued)

Non Interest-Bearing Loans and Borrowings

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; settlement of the obligation may require an outflow of resources embodying economic benefits, and the obligation amount can be reliably assessed. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Pensions and Other Post-Employment Benefits

Social contributions (including contributions to the state pension fund) are made through a unified social tax ("UST") calculated by the Company by the application of a regressive rate from 2% to approximately 35.6% to the annual gross remuneration of each employee. The Company allocates the UST to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund vary from 28% to 14% depending on the annual gross salary of each employee.

The Company's contributions relating to the UST are expensed in the year to which they relate.

In addition, post-employment benefits also include defined contribution plans and defined benefit plans.

Defined contribution plan is a post-employment benefit plan under which the Company's liability is limited solely to the amount of a contribution it agrees to pay into a fund. In this case all actuarial and investment risks will be borne by employees. Under defined benefit plans, the Company's obligation is to provide the agreed benefits to current and former employees whereby actuarial and investment risks fall, in essence, on the Company.

Defined Benefit Plans and Defined Contribution Plans

The Company operates defined benefit pension plans and defined contribution plans. The defined benefit plans are funded on a discretionary basis. The defined benefit pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. The defined contribution pension costs are expensed based on actual contributions made by the Company into its employees' individual pension accounts.

2. Summary of Significant Accounting Policies (continued)

Leases

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

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

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

Revenue

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

The Company categorizes the revenue sources in thirteen major categories:

1. Long distance services - national;
2. Long distance services - international;
3. Monthly subscription fees for local services;
4. Installation and connection fees;
5. Telegraph services;
6. Mobile telecommunications services;
7. Radio and TV broadcasting;
8. Data transfer and telematic services;
9. New services (Internet, ISS, ISDN);
10. Rent of channels;
11. Revenue from telecommunication operators;
12. Other telecommunications services;
13. Other revenue.

Long distance services (national and international)

Revenues from long distance services are based on time used by the caller, the destination of the call and the services utilized. The Company charges long distance fees on a per-minute basis. The Company recognizes revenues related to the long distance services in the period when the services are rendered.

Monthly subscription fees for local services

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

2. Summary of Significant Accounting Policies (continued)

Revenue (continued)

Installation fees and connection fees

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

Telegraph services

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

Mobile telecommunications services

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

Radio and TV broadcasting

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

Data transfer and telematic services

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

New services (Internet, ISS, ISDN)

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

Rent of channels

The Company recognizes revenues from the rent of channels in the period when the services are rendered.

Revenues from telecommunication operators

Revenues collected from telecommunication operators for transmission of their traffic (incoming calls), and interconnection payments to the operators for the Company's traffic are recorded separately as Revenue from telecommunication operators and Interconnection charges, correspondingly, when the services are provided.

Other telecommunication services

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

2. Summary of Significant Accounting Policies (continued)

Revenue (continued)

Other revenue
Revenues other than telecommunication revenues primarily consist of transportation services, maintenance of recreational facilities and other social infrastructure and sale of goods and services provided by non-core units.

Income Tax

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

IAS 12 requires the use of a balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values. The Company’s principal temporary differences arise in respect of property, plant and equipment. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

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

Value-Added Tax

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

3. Segment Information

The Company’s operating businesses are organized and managed separately according to the nature of the services provided, where each segment represents a strategic business unit that services different markets. The Company operates in 3 business segments – wireline telecommunication services, wireless telecommunication services and other services. Other services contain banking, transport, construction services, sales of marketable securities and other goods.

(in thousands of rubles)

3. Segment Information (continued)

The following tables present financial information for segments.

	2003					2002, as restated				
	Wireline services	**Wireless services**	**Other**	**Intercompany eliminations**	**Total for the Company**	**Wireline services**	**Wireless services**	**Other**	**Intercompany eliminations**	**Total for the Company**
REVENUE										
Sales to third parties	16,191,538	5,070,106	744,633	-	22,006,277	13,531,016	3,699,270	467,577	-	17,697,863
Inter-segment sales	2,124,768	17,169	-	(2,141,937)	-	1,036,700	-	8,690	(1,045,390)	-
Total revenue	**18,316,306**	**5,087,275**	**744,633**	**(2,141,937)**	**22,006,277**	**14,567,716**	**3,699,270**	**476,267**	**(1,045,390)**	**17,697,863**
SEGMENT PROFIT	**3,317,794**	**952,280**	**23,162**		**4,293,236**	**1,970,274**	**1,052,265**	**32,302**		**3,054,841**
Unallocated expenses					**(856,123)**					**(578,987)**
Operating income					**3,437,113**					**2,475,854**
Income from associates					29,056					4,840
Interest expense, net					(1,316,361)					(776,446)
Income (loss) from revaluation of investments					3,547					(6,319)
Foreign exchange loss, net					(1,512)					(389,201)
Net monetary gain					-					602,536
Income tax expense					(928,531)					(788,786)
Minority interest					614					(76,259)
Net income					**1,223,926**					**995,528**

(in thousands of rubles)

3. Segment Information (continued)

Financial information for segments (continued):

	2003					2002, as restated				
	Wireline services	**Wireless services**	**Other**	**Intercompany eliminations**	**Total for the Company**	**Wireline services**	**Wireless services**	**Other**	**Intercompany eliminations**	**Total for the Company**
ADDITIONAL INFORMATION										
Segment assets	31,607,712	3,892,910	602,565		36,103,187	28,109,175	2,675,358	512,420		31,296,953
Unallocated corporate assets					2,895,393					774,099
Consolidated total assets					**38,998,580**					**32,071,052**
Segment liabilities	7,452,488	1,261,946	577,266		9,291,700	11,097,268	838,456	436,335		12,372,059
Unallocated corporate liabilities					11,422,671					2,537,894
Consolidated total liabilities					**20,714,371**					**14,909,953**
Capital expenditure	8,114,012	1,177,527	21,232		9,312,771	5,398,427	661,036	39,199		6,098,662
Depreciation and amortization	2,345,473	268,181	38,313		2,651,967	2,258,592	129,970	12,205		2,400,767

The revenue and operating result from discontinuing operation, and assets and liabilities of discontinuing operations are included into Wireless telecommunication services segment. For more information see Note 27 "Discontinuing operations".

(in thousands of rubles)

3. Segment Information (continued)

The Company provides wireline telecommunication services and wireless telecommunication services, as well as other services. Management believes that the Company operates in one geographical segment. Certain services provided between the wireline and wireless segments are not invoiced, and accordingly not recognized, between the subsidiaries of the Company performing such services.

4. Revenues

	2003	2002
Revenues from subscribers		
Long distance calls - national	5,631,559	4,662,181
Long distance services - international	1,300,347	1,240,254
Monthly subscription fees for local services	4,150,267	3,351,696
Installation and connection fees	1,159,634	946,034
Telegraph services	201,974	214,765
Mobile telecommunication services	5,233,783	3,889,461
Radio and television broadcasting	765,831	701,647
Data transfer and telematic services	286,060	168,066
New services (Internet, ISS, ISDN)	480,538	166,190
Rent of channels	85,879	66,062
Other telecommunication services	484,188	718,405
Total revenues from subscribers	**19,780,060**	**16,124,761**
Revenues from telecommunication operators		
Incoming calls	1,412,803	750,138
Other revenues	813,414	822,964
Total	**22,006,277**	**17,697,863**

Mobile telecommunication services primarily consist of air time charges, fees for additional mobile services and roaming charges to other mobile operators for services to visiting roaming clients.

Other telecommunication services mainly include revenues from payphone network, one time services like up-dating subscriber's data, sales of handsets and accessories.

Revenue from telecommunication operators consists primarily of Rostelecom charges for incoming traffic (Note 30).

Other revenues primarily consist of revenue from transportation services, maintenance of recreational facilities and other social infrastructure and sale of goods and services provided by non-core subsidiaries.

(in thousands of rubles)

4. Revenues (continued)

The Company identifies revenue by the following major customer groups:

Customer groups	2003	2002
Residential customers	11,961,116	8,350,962
Corporate customers	6,693,062	7,096,335
Telecommunication providers	1,412,803	750,138
Government customers	1,269,996	977,241
Tariff compensation from the state budget	669,300	523,187
Total	**22,006,277**	**17,697,863**

5. Other Operating Expenses

	2003	2002
Rent of premises	173,080	166,895
Fire and other security services	250,585	128,559
Payments to Gossvyaznadzor	74,516	83,463
Cost of goods sold	387,922	443,670
Transportation services	44,562	23,463
Audit and consulting fees	32,298	22,139
Training expenses	52,699	36,075
Advertising	171,946	184,829
Business travel expenses	88,142	51,587
Post services	22,432	25,037
Social expenses	52,699	36,075
Insurance	228,533	234,329
Information services	67,010	30,954
Research and development expenses	20,344	36,379
Obsolescence inventory provision	6,172	33,699
Dealers commission	253,118	-
Payments to Non-commercial partnership	188,992	147,000
Construction of social sphere	53,854	96,801
Mobilization expenses	10,710	2,983
Civil defense expenses	9,233	2,573
Other	938,868	1,054,573
Total	**3,144,921**	**2,835,123**

Other expenses primarily consist of expenses for bank services, contract execution with subscribers of mobile communication, commission and agent fees, expenses related to cash collection with nonpayer, encashment, other general and administration expenses.

(in thousands of rubles)

6. Interest expense, net

	2003	2002
Interest income	(133,438)	(36,740)
Interest expense	1,269,741	733,222
Interest expense accrued on financial leases	222,247	84,670
Less capitalized interest	(42,189)	(4,706)
Total	**1,316,361**	**776,446**

7. Income Tax

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

	2003	2002
Current income tax expense	847,294	509,841
Prior-year income tax adjustments	-	-
Carry forward of tax losses and unused tax credits	-	-
Total current income tax expense	**847,294**	**509,841**
Deferred income tax benefit (charge) relating to origination of temporary differences	81,237	278,945
Total deferred income tax (benefit) charge	81,237	278,945
Total income tax charge for the year	**928,531**	**788,786**

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

	2003	2002
Profit before income tax and minority interest	**2,151,843**	**1,860,573**
Statutory income tax rate	24%	24%
Theoretical tax charge at statutory income tax rate	516,442	446,538
Increase (decrease) resulting from the effect of:	-	-
Prior-year income tax adjustments	-	-
Non-taxable income	-	-
Expenses not deductible for tax purposes	286,290	114,550
Carryforward of tax losses and unused tax credits	-	-
Deductible tax losses and tax credits	-	-
Inflation effect on deferred tax at beginning of year	-	(63,477)
Other reconciling items	125,799	291,175
Total income tax charge for the year at the effective rate of 43% (2002: 42%)	**928,531**	**788,786**

7. Income Tax (continued)

(in thousands of rubles)

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

	December 31, 2003	**December 31, 2002**
Tax effects of deferred tax assets:		
Accounts payable	60,812	3,480
Accounts receivable	126,561	-
Other	2,796	32,995
Tax loss carryforward	-	-
Deferred tax asset, total	**190,169**	**36,475**
Tax effects of deferred tax liabilities:		
Property, plant and equipment	(2,494,339)	(2,119,257)
Accounts receivable	-	(31,440)
Investment valuation difference	(13,218)	(18,043)
Inventory	-	(9,610)
Other	(64,537)	(158,813)
Deferred income tax liability, total	**(2,572,094)**	**(2,337,163)**
Net deferred income tax liability	**(2,381,925)**	**(2,300,688)**

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 consolidated financial reporting purposes and for profits tax purposes. The tax effect of these temporary differences is recorded at the rate of 24% effective as of January 1, 2002.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current deferred 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.

(in thousands of rubles)

8. Earnings per Share

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

	2003	2002
Net income	1,223,926	995,528
Less dividends on preferred shares	(144,837)	(71,307)
Net income attributable to ordinary shareholders (basic and diluted)	1,079,089	924,221
Weighted average number of ordinary shares for basic and diluted earnings per share	32,159,959,344	32,080,542,660
Earnings per ordinary share, Rubles (basic and diluted)	0.034	0.029

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

9. Dividends Paid and Proposed

Declared and paid during the year (for the year 2002)

Dividends on ordinary shares, 0.0039 rubles per share	127,257
Dividends on preferred shares, 0.0091 rubles per share	71,307
Total	**198,564**

Proposed by the Board of Directors for the year 2003 (Note 32, Subsequent Events)

Dividends on ordinary shares, 0.01 rubles per share	322,988
Dividends on preferred shares, 0.0185 rubles per share	144,837
Total	**467,825**

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

(in thousands of rubles)

10. Property, Plant and Equipment

	Buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Machines and other	Total
Cost					
At December 31, 2002	27,530,690	27,367,264	1,905,980	6,119,819	62,923,753
Additions	-	-	7,937,890	-	7,937,890
Disposals	(159,698)	(950,081)	(5,975)	(156,446)	(1,272,200)
Transfers	2,955,183	3,929,125	(7,718,797)	834,489	-
At December 31, 2003	**30,326,175**	**30,346,308**	**2,119,098**	**6,797,862**	**69,589,443**
Impairment					
At December 31, 2002	(1,888,193)	(1,744,630)	(152,436)	(393,228)	(4,178,487)
Accrued provision for the year	-	-	(18,925)	-	(18,925)
Reversal of provision	9,179	51,900	-	7,398	68,477
At December 31, 2003	**(1,879,014)**	**(1,692,730)**	**(171,361)**	**(385,830)**	**(4,128,935)**
Accumulated depreciation					
At December 31, 2002	(15,306,576)	(13,102,235)	-	(3,901,844)	(32,310,655)
Charge for the year	(524,037)	(1,620,818)	-	(428,822)	(2,573,677)
Disposals	126,667	814,010	-	100,998	1,041,675
At December 31, 2003	**(15,703,946)**	**(13,909,043)**		**(4,229,668)**	**(33,842,657)**
Net book value as of December 31, 2002	**10,335,921**	**12,520,399**	**1,753,544**	**1,824,747**	**26,434,611**
Net book value as of December 31, 2003	**12,743,215**	**14,744,535**	**1,947,737**	**2,182,364**	**31,617,851**

The net book value of plant and equipment held under finance leases at December 31, 2003 is 1,793,042 (2002 – 1,306,379). Leased assets are pledged as security for the related finance lease obligations (Note 24).

In 2003, the Company increased construction in progress by the amount of capitalized interest totaling 42,189 (2002 – 4,706) (Note 6).

Property, plant and equipment for a total of 6,461,195 (2002 – 4,166,220) as of December 31, 2003 secure the Company’s borrowings (Note 23).

Property, plant and equipment for a total of 346,416 (2002 – 437,361) as of December 31, 2003 were received on supplier credit terms.

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

10. Property, Plant and Equipment (continued)

(in thousands of rubles)

The Company plans to engage an independent appraiser to assist in reconstruction of the fair value of the Property, Plant and Equipment, in order to make the necessary adjustments, if any, to the Company’s books and records, to comply with IFRS.

11. Intangible Assets and Goodwill

	Goodwill	Licenses	Software and Other	Total
Cost				
At December 31, 2002	174,595	1,217	231,292	407,104
Additions	-	1,362	499,278	500,640
Disposals	-	-	(19,804)	(19,804)
At December 31, 2003	**174,595**	**2,579**	**710,766**	**887,940**
Accumulated amortization				
At December 31, 2002	(13,095)	(239)	(57,227)	(70,561)
Charge for the year	(17,459)	(378)	(60,453)	(78,290)
Disposals	-	-	3,515	3,515
At December 31, 2003	**(30,554)**	**(617)**	**(114,165)**	**(145,336)**
Net book value at December 31, 2002	**161,500**	**978**	**174,065**	**336,543**
Net book value at December 31, 2003	**144,041**	**1,962**	**596,601**	**742,604**

Oracle

In accordance with Board decision № 10 of OAO Svyazinvest dated April 14, 2003 the Company was instructed to proceed with the purchase and implementation of an enterprise management system (ERP) based on Oracle E-business Suite software. The Company’s Board of Directors confirmed this decision and approved a supply contract with ZAO Otkrytye tekhnologii 98 in the amount of 550,831 (approximately 18,701,078 US dollars).

In accordance with the supply contract, the Company has been provided with non-exclusive licenses for 9,242 users of E-business Suite among other license applications.

The Company expects to complete this system implementation in 2006.

Goodwill

Goodwill arising on the acquisition of OOO “Yuzhno-Uralskiy Sotoviy Telefon”on 2002, was amortized consistent with IAS requirements over10 years.

The Company did not estimate the fair value of the purchased net assets of OOO “Yuzhno-Uralskiy Sotoviy Telefon” as required by IAS 22 “Business Combinations”. For determination of goodwill, the management used an assumption that historical value of investment is equal to fair value.

11. Intangible Assets and Goodwill (continued)

(in thousands of rubles)

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

12. Investments in subsidiaries

The consolidated financial statements include the assets, liabilities and financial results of OAO “Uralsvyazinform” and its subsidiaries listed below:

Subsidiary	**Main Activity**	**Voting Shares**	
		2003	**2002**
OOO “Perminform”	Data transfer	100%	100%
OOO “Ural Inform TV”	Radio-, TV broadcasting	100%	100%
ZAO “Infinvest”	Installation of telecommunication equipment	100%	100%
ZAO “Svyazinformkomplekt”	Trade and purchasing agents	100%	100%
OOO “Tumentelecominvest”	Professional activity on securities market	100%	100%
ZAO “Centr vnedreniya specializirovanih specsistem”	Development of education system	100%	100%
OOO “Uzhno-Uralsky sotoviy telefon”	Cellular communication services	100%	100%
ZAO “Ermak RMS”	Cellular communication services	90%	90%
ZAO “AKIB Pochtobank”	Bank activity	68%	68%
NPF “Svyazist”	Pension plans	63%	63%
ZAO “VSNET”	Internet services	52%	52%
ZAO “Uralwestcom” (see Note 27 “Discontinued Operations”)	Cellular communication services	51%	51%
ZAO “Tumenruscom”	Cellular communication services	51%	51%

(in thousands of rubles)

13. Investments in Associates

Associate	Activity		As of December 31, 2003 Voting shares	As of December 31, 2003 Carrying value	As of December 31, 2002 Voting shares	As of December 31, 2002 Carrying value
OAO "Tatincom-T"	Cellular communication services	Share in net assets	33%	396,407	-	-
		Negative goodwill		(76,454)		
				319,953		
ZAO "Uralskaya telefonnaya companiya"	Communication services		23%	17,621	23%	50
ZAO "Teleross-Ekatirinburg"	Communication services		50%	5,742	50%	1,522
ZAO "Teleross-Tyumen"	Communication services		50%	4,377	50%	275
ZAO "Ural-Teleservis"	IT services		25%	1,170	25%	105
Other				445		698
Total				**349,308**		**2,650**

In 2003 the Company paid 316,069 to acquire a 33,34% equity interest in OAO "Tatincom-T" (Note 14).

Movement in investments in associates in 2003 is presented below:

Balance at December 31, 2002	**2,650**
Associate's acquisition cost (Note 14)	316,069
Share in income net of income tax	29,056
Amortization of negative goodwill	1,533
Balance at December 31, 2003	**349,308**

The financial year of all associates terminates on December 31, 2003.

The accounting policies of associated companies are not fully consistent with the accounting policy of the Company used for these consolidated financial statements. The management of the Company is certain that differences in accounting policies of associates do not have a material effect on the amount of identifiable income from participation in such companies.

Investments in other associates were accounted at cost as amount of profit or loss is immaterial to the Company' consolidated financial statements.

14. Acquisition of associate

In October 2003 the Company acquired 33,34% share of OAO "Tatincom-T" and gained significant influence over its financial and operational activities (Note 13). Accordingly, the share of the Company in its results of operations and financial position has been accounted based on equity method since October 1, 2003.

(in thousands of rubles)

The Company did not estimate the fair value of the purchased net assets as required by IAS 22, "Business Combinations". The financial statements were presentedbased on assumption that historical value of investment is equal to the fair value.

OAO "Tatincom-T" is a provider of cellular telecommunication services, which operates in Republic of Tatarstan. At the beginning of 2003 it was rated as second operator at the cellular services market there having 31% of market share. Due to high competitive environment (the main competitors are MTS, Vympelcom and Megafon) the market share of OAO "Tatincom-T" decreased to 12% in December 2003. It raises uncertainties about possibility of future operation of OAO "Tatincom-T".

Management of OAO "Uralsvyazinform" plans to enhance its GSM network in 2004 by covering major cities and towns and main highways in the Republic. Afterwards it plans to cover major district centers of Tatarstan. This would attract subscribers and cause increase of cellular market share.

The excess of share in the historical value of net assets (liabilities) of OAO "Tatincom-T" over the paid acquisition price (negative goodwill) was defined as follows:

Acquisition price	303,413
Transaction costs	12,656
Total paid	**316,069**
Total net assets	**1,181,932**
Company's share in acquired net assets	33,34%
Value of acquired share in identifiable net assets	394,056
Negative goodwill	**(77,987)**
Amortization of negative goodwill since the acquisition date to December 31, 2003	1,533
Amount of negative goodwill at December 31, 2003 (net)	**(76,454)**

15. Long-term investments

	2003	2002
Other long-term investments	122,943	99,531
Long-term loans	190,932	107,448
Government, municipal and third-party bonds	29,619	61,118
Less: allowance for long-term investments	(35,492)	(32,880)
Total	**308,002**	**235,217**

15. Long-term investments (continued)

As of December 31, 2003 and 2002, loans and bonds issued are recognized at fair value.

Other long-term investments include investments in the following companies:

(in thousands of rubles)

	2003		2002	
	Share	**Current value**	**Share**	**Current value**
Commercial Bank "Svyaz-Bank"	7%	28,638	7%	28,638
ZAO TK-Ural	24.8%	12,622	24.8%	12,622
Investments of NPF Svyazist		22,243		-
Others		81,566		80,397
Less: Allowance of other long-term investments		(22,126)		(22,126)
Total		**122,943**		**99,531**

Other available-for-sale financial assets do not have quoted market prices in an active market. Management believes that their fair value equal to investment cost less allowance.

16. Inventories

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

	2003	2002
Cable, spares and materials for telecommunications equipment	518,993	408,639
Finished products and goods for resale	78,317	66,509
Other inventories	310,135	318,421
Less: Provision for obsolescence	(11,854)	(3,430)
Total	**895,591**	**790,139**

17. Trade accounts receivable

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

	2003	2002
Trade receivables - telecommunication services	2,280,452	1,596,666
Trade receivables – other	22,402	7,548
Less: Allowance for doubtful accounts	(934,503)	(353,866)
Total	**1,368,351**	**1,250,348**

17. Trade accounts receivable (continued)

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

	2003	2002
Corporate customers (including operators)	671,045	529,593
Residential customers	1,422,837	905,373
Governmental customers	186,570	161,700

(in thousands of rubles)

Total	**2,280,452**	**1,596,666**

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

18. Short-term investments

Short-term investments are recognized at fair value. As of December 31, 2003 and 2002, short-term investments include the following:

	2003	2002
Short-term loans including interest	118,706	65,197
Investments available for sale	7,588	-
Other short-term investments	33,337	11,111
Less: Allowance for short-term investments	(12,307)	(6,475)
Total	**147,324**	**69,833**

19. Prepayments and other current assets

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

	2003	2002
Prepayment and advance payments	290,612	357,531
Settlements with personnel	44,373	19,759
VAT recoverable	1,280,291	1,046,778
Income tax	161,183	218,242
Other taxes prepaid	53,891	63,727
Prepaid Expenses	289,083	138,441
Other receivables	213,345	253,806
Less: Allowance for other current assets	(131)	(91,142)
Total	**2,332,647**	**2,007,142**

20. Cash and cash equivalents

	2003	2002
Cash at bank and in hand	647,910	391,667
Short-term deposits	4,334	17,196
Other cash equivalents	32,565	87,054
Total	**684,809**	**495,917**

(in thousands of rubles)

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

21. Share capital

Share capital:	Shares	Thousand rubles
Preferred shares at par value 0,12 Rubles		
Outstanding shares as of December 31, 2003	7,835,941,286	940,313
Authorized shares, not issued	7,164,058,714	
Less: treasury shares	4,112,276	(1,726)
Ordinary shares at par value 0,12 Rubles		
Outstanding shares as of December 31, 2003	32,298,782,020	3,875,854
Authorized shares, not issued	11,445,155,709	
Less: treasury shares	3,285,572	(3,287)
Total share capital		**4,811,154**

The state registration of amendments to the charter documents was completed on January 15, 2003. However, the change in charter capital was recognized as a material event, and in accordance with IAS 10, “Events After the Balance Sheet Date”, was carried in the accompanying consolidated financial statements as of December 31, 2002.

The share capital account represents the authorized capital of the Company as stated in the charter documents. The Company had 32,298,782,020 ordinary shares and 7,835,941,286 Class A preferred shares as of December 31, 2003.

All shares have a par value of 0.12 Rubles per share. Of the share capital issued as of December 31, 2003 80 % was attributable to ordinary shares, and 20 % attributable to Class A preferred shares. The ordinary shareholders are allowed one vote per share. Class A preferred shares are non-voting. All ordinary shares and Class A preferred shares are eligible for distribution of ruble earnings available in accordance with Russian statutory accounting regulations. Each Class A preferred shares is entitled to a minimum annual dividend in the amount 10 % of statutory net income available for dividends. Dividends on Class A preferred shares may not be less than dividends on ordinary shares. Shareholders of Class A preferred shares have a preferential right to recover the par value of preferred shares in liquidation.

Treasury shares are held by OOO “Tumentelecominvest” and ZAO “AKIB Pochtobank”, the subsidiaries of the Company.

21. Share capital (continued)

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

(in thousands of rubles)

In September 2002, the SEC registered the Level 1 ADR program for preference shares on the basis of a Depositary agreement signed between the Company, JP Morgan Chase Bank as a Depository and Holders of American Depositary Receipts.

Each ADR is equal to 200 ordinary and preference shares correspondingly.

As at the end of 2003:

- 17,636,451 ADRs represented 3,527,290,200 deposited ordinary shares, which constituted 10.92 % of total ordinary shares issued.
- 4,959,754 ADRs represented 991,950,800 deposited preference shares, which constituted 2.47 % of the Charter capital of the Company.

The Company's shareholding structure as of December 31, 2003 is as follows:

	Ordinary shares		**Preferred shares**		**Total**
		%		**%**	
OAO Svyazinvest	16,608,946,183	51%	-	-	16,608,946,183
Other legal entities[1]	11,819,809,509	37%	5,658,346,773	72%	17,478,156,282
Individuals	3,870,026,328	12%	2,177,594,513	28%	6,047,620,841
Total	**32,298,782,020**	**100%**	**7,835,941,286**	**100%**	**40,134,723,306**

22. Minority interest

	2003	**2002**
As of beginning of year	182,084	105,825
Minority interest in net income of subsidiaries	6,847	40,309
Minority interest in discontinued operation (see to Note 27)	(7,461)	35,950
Dividends paid to minority shareholders of subsidiaries	(2,015)	-
As of end of year	**179,455**	**182,084**

[1] Includes shares held by OOO "Tumentelecominvest" and ZAO "AKIB Pochtobank", the subsidiaries of the Company.

(in thousands of rubles)

23. Loans and borrowings

As of December 31, 2003 and 2002 borrowings consisted of the following:

	Effective interest rate	Maturity	2003	2002
Short-term borrowings				
Bank loans:				
Bank loans (Rubles)	13-22%	2004	1,836,249	1,575,422
Bank loans (US Dollars)	8%	2004	103,297	105,129
Bank loans (Euro)	10%	2004	52,807	116,897
Total bank loans			**1,992,353**	**1,797,448**
Vendor financing (Euro)	8%	2004	69,303	-
Promissory notes (Rubles)	10-13.5%	2004	17,552	71,844
Total short-term borrowings			**2,079,208**	**1,869,292**
Long-term borrowings				
Bank loans:				
Bank loans (Rubles)	10%-20.5%	2007-2008	3,146,772	1,803,845
Bank loans (US Dollars)	8%	2007	191,856	445,542
Bank loans (Euro)	10%	2005-2007	580,165	993,138
Bank loans (other currencies)			-	-
Total bank loans			**3,918,793**	**3,242,525**
Bonds (Rubles)	14.25%-17.5%	2005-2006	**4,236,030**	**1,064,404**
Vendor financing:				
Vendor financing (Rubles)		2005	1,300	91,998
Vendor financing (US Dollars)	7%	2005-2007	498,536	694,809
Vendor financing (Euro)	8%	2005-2007	164,817	110,553
Total vendor financing			**664,653**	**897,360**
Restructured connection fees from customers (Rubles)	0%-30%	2011-2016	32,093	32,093
Promissory notes (Rubles)		2004-2007	183,641	114,796
Less: Current portion of long-term loans and borrowings		2004	(1,256,520)	(1,724,986)
Total long-term borrowings			**7,778,690**	**3,626,192**

Included in total borrowings is accrued interest of 258,832 as of December 31, 2003 (December 31, 2002: 216,531).

23. Loans and borrowings (continued)

(in thousands of rubles)

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

	Borrowings other than vendor financing	Vendor financing	Total
Overdue	13,650	292,172	305,822
2004	700,831	249,867	950,698
2005	4,215,927	42,919	4,258,846
2006	3,083,493	47,625	3,131,118
2007	324,563	32,070	356,633
2008 and thereafter	32,093	-	32,093
Total	**8,370,557**	**664,653**	**9,035,210**

Short-term borrowings

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

Alfabank

In March 2003, the Company signed a credit contract № 4707 with OAO “Alfabank” in the amount of 300,000 thousand rubles. The loan maturity date is April 25, 2004. The annual interest rate on this loan was 14%. As of December 31, 2003 the Company’s outstanding balance on this loan was 276,000. Property plant and equipment for the amount 369,000 thousand rubles were pledged as collateral for this loan.

In July 2003, the Company signed a credit contract № 225 with OAO “Alfabank” in the amount of 500,000 thousand rubles. The loan maturity date is May 31, 2005. The annual interest rate on this loan was 13.75%. As of December 31, 2003 the Company’s outstanding balance on this loan was 250,000. Property plant and equipment for the amount 620,000 thousand rubles were pledged as collateral for this loan.

Long-term bonds

In June 2003, the Company registered the issue of 3,000,000 interest-bearing bearer's bonds par value of 1 thousand Rubles each. Bonds have 6 coupons. Payments against the first coupon are made on the 182 th day from the date of issue; interest per other coupons are payable every subsequent 182 th day. Coupon interest rate is determined at 14.5 % per annum. The bonds mature in 1092 days from the date of issue, in July 2006.

In July 2003, the Company entered into a preliminary agreement with a Russian limited liability company (LLC) to conclude a binding agreement to purchase 1,400,000 of the Company's bonds. As a condition precedent to concluding the binding agreement, the Company's Board of Directors was to approve such purchase. The Company deposited 2,000,000 with the LLC as an advance for the future bond purchase. In October 2003, the parties agreed not to execute the binding agreement. Also in October 2003 the LLC returned the deposit with interest.

23. Loans and borrowings (continued)

Long-term borrowings

Sberbank

In August 2002, the Company signed a credit line contract № 113-НКЛ with AKB “Sberbank” in the amount of 390,000. The line is opened till August 13, 2005. The annual interest rate on this credit line reduced during 2003 from 19.5% to 14%. As of December 31, 2003 the Company’s outstanding balance on this credit line was 390,000. Property plant and equipment for the amount 515,795 were pledged as collateral for this credit line.

In October 2002, the Company signed a credit line contract № 135-НКЛ with AKB “Sberbank” in the amount of 370,000. The line is opened till October 5, 2005. The annual interest rate on this loan reduced during 2003 from 19% to 14%. As of December 31, 2003 the Company’s outstanding balance on this credit line was 370,000. Property plant and equipment for the amount 474,099 were pledged as collateral for this credit line.

In December 2002, the Company signed a credit line contract № 163-НКЛ with AKB “Sberbank” in the amount of 450,000. The line is opened till December 9, 2005. The annual interest rate on this loan reduced during 2003 from 19% to 14%. As of December 31, 2003 the Company’s outstanding balance on this credit line was 450,000. Property plant and equipment for the amount 534,395 were pledged as collateral for this credit line.

In November 2003, the Company signed a credit line contract № 165-НКЛ with AKB “Sberbank” in the amount of 400,000. The line is opened till July 7, 2005. The annual interest rate on this loan was 12.5%. As of December 31, 2003 the Company’s outstanding balance on this credit line was 400,000. Property plant and equipment for the amount 450,029 were pledged as collateral for this credit line.

In December 2003, the Company signed a credit line contract № 180-НКЛ with AKB “Sberbank” in the amount of 235,000. The line is opened till June 14, 2005. The annual interest rate on this loan was 12.5%. As of December 31, 2003 the Company’s outstanding balance on this credit line was 235,000. Property plant and equipment for the amount 264,441 were pledged as collateral for this credit line.

Vneshtorgbank

In June 2003, the Company signed a credit contract № K-31/03 with OAO “Vneshtorgbank” in the amount of 5,392 thousand US dollars. The loans’ maturity date is July 21, 2007. The annual interest rate on this loan was 7.65%. As of December 31, 2003 the Company’s outstanding balance on this loan was 158,809 (including short-term portion of 39,702).

In December 2003, the Company signed a credit contract № K-109/03 with OAO “Vneshtorgbank” in the amount of 317,000. The loans’ maturity date is June 24, 2005. The annual interest rate on this loan was 15%. As of December 31, 2003 the Company’s outstanding balance on this loan was 317,000. Property plant and equipment for the amount 572,022 were pledged as collateral for this loan.

23. Loans and borrowings (continued)

Long-term borrowings (continued)

Promstroybank

In December 2003, the Company signed a credit contract № 174/03 with OAO “Promstroybank” in the amount of 300,000. The loans’ maturity date is June 21, 2005. The annual interest rate on this loan was 15%. As of December 31, 2003 the Company’s outstanding balance on this loan was 300,000. Property plant and equipment for the amount 366,578 were pledged as collateral for this loan.

Vnesheconombank

In 1995-1996, the Russian Ministry of Finance (hereinafter, "Minfin") provided long-term financing to the Company to purchase telecommunications equipment from various foreign vendors. Vnesheconombank acted as the Company's lending agent on behalf of Minfin. Initially the agreements were denominated in Deutschmark (DM). After transition to Euro, the loans were converted to Euro. The interest under these agreements is accrued at LIBOR, plus 6.5%. The loans are not collateralized. As of December 31, 2003 the Company’s principal debt outstanding balance on these loans was in total 215,723. The loans’ maturity date is July 2007.

National Reserve Bank

In October 2003, the Company signed a credit contract № 959-DG with АКБ “National Reserve Bank” in the amount of 3,154 thousand euros. The loans’ maturity date is October 13, 2006. The annual interest rate on this loan was 9.75%. As of December 31, 2003 the Company’s outstanding balance on this loan was 106,551 (including short-term portion of 53,027). Property plant and equipment for the amount 109,588 were pledged as collateral for this loan.

Promissory notes

In addition, OAO “Uralsvyazinform” issued promissory notes in amount of 201,192 as of December 31, 2003 which have short-term portion of 17,551.

Vendor financing

Alcatel

The Company entered into several agreements with Alcatel, under which Alcatel delivered and installed telecommunication equipment. The related liability is denominated in Euro. Part of these loans bears interest at 4.5-6.5% per annum. Interest on financing with below market rates is accrued at a weighted average interest rate on the Company’s interest bearing borrowings obtained in appropriate periods and denominated in Euro, which approximated 6% per annum.

23. Loans and borrowings (continued)

(in thousands of rubles)

Vendor financing (continued)

Alcatel (continued)

Vnesheconombank, London Forfeiting Company PLC and Drezdner Bank purchased the amounts due to Alcatel under the vendor financing agreement, including accrued interest and penalties in 2003.

In 2001, the Company entered into several agreements with Siemens AG, under which Siemens AG delivered telecommunication equipment to the Company. The amounts payable under these agreements are denominated in Euro. The agreements don’t provide for interest payments thus the amount of liability as at December 31, 2003 represents the present value of future payments. Interest is accrued at a weighted average interest rate on the Company’s interest bearing borrowings obtained in appropriate periods and denominated in Euro, which approximated 6% per annum.

Other

Other vendor financing comprises amounts payable to various vendors and includes several overdue amounts for which the date of legal extinguishment of a liability has not occurred as of December 31, 2003.

24. Finance lease obligations

The Company has finance lease contracts for telecommunication equipment. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments as of December 31, 2003 and 2002 are as follows:

	2003		**2002**	
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
Within one year	573,763	357,801	562,046	525,891
After one year but not more than five years	1,113,746	753,863	577,730	328,866
Total minimum lease payments	1,687,509		1,139,776	
Less amounts representing finance charges	(575,845)		(285,019)	
Present value of minimum lease payments	**1,111,664**	**1,111,664**	**854,757**	**854,757**

In 2003, the Company's primary lessor was OAO “RTC-Leasing”. In 2003, effective interest rate on these liabilities ranged from 18% to 41% per annum.

24. Finance lease obligations (continued)

(in thousands of rubles)

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

25. Trade accounts payable and accrued liabilities

The Company's trade accounts payable and other current liabilities comprised:

	2003	**2002**
Trade accounts payable	544,013	358,869
Advances received from subscribers	630,971	453,457
Accounts payable for capital investments	1,538,192	838,263
Salaries and wages payable	551,518	360,991
Other	559,465	678,224
Total	**3,824,159**	**2,689,804**

26. Tax and social security payable

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

	2003	**2002**
Value-added tax	441,832	401,118
Income tax	152,737	46,348
Property tax	63,084	50,009
Personal income tax	46,892	30,095
Sales tax	18,606	33,016
Unified social tax	45,291	61,476
Road users tax	-	548
Other	25,573	37,867
Total	**794,015**	**660,477**

27. Discontinued Operations

As part of management’s efforts to concentrate on the wireless segment on GSM standard and to increase profitability of the wireless segment, the Company discontinued a cellular operator that provides services using NMT standard. The operations on NMT standard were conducted through ZAO “Uralwestcom”. In April 2004 the Company’s Board of Directors approved a decision to sell 51% share in ZAO “Uralwestcom” to Russian Telecommunication Development Holding Corporation for 3.5 million US dollars. The disposal of ZAO “Uralwestcom” was completed June 2004.

The result of operations of ZAO “Uralwestcom” was included in the accompanying consolidated statement of operations for the year ended December 31, 2003 and reported as discontinued operations. The corresponding result of operations of the discontinued

27. Discontinued Operations (continued)

(in thousands of rubles)

operation for the years ended December 31, 2002 is re-presented in the accompanying statements of operations, to conform to the current year presentation.

The accompanying statement of operations include reconciliation of continuing and discontinuing operations of the Company:

	2003		
	Continuing Operations	**Discontinuing Operations**	**Company as a whole**
Revenues	**21,843,469**	**162,808**	**22,006,277**
Operating expenses			
Wages, salaries, other benefits and payroll taxes	(6,268,258)	(35,197)	(6,303,455)
Impairment of property, plant and equipment	(19,286)	-	(19,286)
Depreciation and amortization	(2,624,295)	(27,672)	(2,651,967))
Materials, repairs, maintenance and utilities	(2,001,508)	(18,122)	(2,019,630)
Taxes other than income tax	(382,052)	(2,758)	(384,810)
Interconnection charges – international	(68,566)	-	(68,566)
Interconnection charges – domestic	(3,269,838)	(26,579)	(3,296,417)
Interconnection charges – associates	-	-	-
Bad debts expense	(605,845)	(960)	(606,805)
Loss on disposal of property, plant and equipment	(76,325)	3,018	(73,307)
Other operating expenses	(3,080,178)	(64,743)	(3,144,921)
Total operating expenses	**(18,396,151)**	**(173,013)**	**(18,569,164)**
Operating income (loss)	**3,447,318**	**(10,205)**	**3,437,113**
Income from associates	29,056	-	29,056
Interest expenses, net	(1,308,787)	(7,574)	(1,316,361)
Income from other investments	3,547	-	3,547
Foreign exchange loss, net	(4,080)	2,568	(1,512)
Net monetary gain	-	-	-
Income before taxation and minority interest	**2,167,054**	**(15,211)**	**2,151,843**
Income tax expense, net	**(928,516)**	**(15)**	**(928,531)**
Net income before minority interest	**1,238,538**	**(15,226)**	**1,233,312**
Minority interest	(6,847)	7,461	614
Net income	**1,231,691**	**(7,765)**	**1,223,926**
Dividends on preferred shares	(144,837)	-	(144,837)
Net income attributable to ordinary shareholders	**1,086,854**	**(7,765)**	**1,079,089**
Basic and diluted earnings per share (Russian Rubles)	**0.034**		**0.034**

(in thousands of rubles)

27. Discontinued Operations (continued)

	2002, as restated		
	Continuing Operations	**Discontinuing Operations**	**Company as a whole**
Revenues	**17,402,082**	**295,781**	**17,697,863**
Operating expenses			
Wages, salaries, other benefits and payroll taxes	(5,467,704)	(36,118)	(5,503,822)
Impairment of property, plant and equipment	(87,596)	-	(87,596)
Depreciation and amortization	(2,379,532)	(21,235)	(2,400,767)
Materials, repairs, maintenance and utilities	(1,421,399)	(31,651)	(1,453,050)
Taxes other than income tax	(467,161)	(5,731)	(472,892)
Interconnection charges – international	(38,944)	-	(38,944)
Interconnection charges – domestic	(2,230,874)	(51,330)	(2,282,204)
Interconnection charges – associates	-	-	-
Bad debts expense	(86,552)	646	(85,906)
Loss on disposal of property, plant and equipment	(109,810)	(2,586)	(112,396)
Other operating expenses	(2,793,527)	(41,596)	(2,835,123)
Total operating expenses	**(15,083,099)**	**(189,601)**	**(15,272,700)**
Operating income (loss)	**2,318,983**	**106,180**	**2,425,163**
Income from associates	4,840	-	4,840
Interest expenses, net	(765,993)	(10,453)	(776,446)
Income from other investments	(6,319)	-	(6,319)
Foreign exchange loss, net	(385,987)	(3,214)	(389,201)
Net monetary gain	595,010	7,526	602,536
Income before taxation and minority interest	**1,760,534**	**100,039**	**1,860,573**
Income tax expense, net	**(762,114)**	**(26,672)**	**(788,786)**
Net income before minority interest	**998,420**	**73,367**	**1,071,787**
Minority interest	(40,309)	(35,950)	(76,259)
Net income	**958,111**	**37,417**	**995,528**
Dividends on preferred shares	(71,307)	-	(71,307)
Net income attributable to ordinary shareholders	**886,804**	**37,417**	**924,221**
Basic and diluted earnings per share (Russian Rubles)	**0.029**		**0.029**

(in thousands of rubles)

27. Discontinued Operations (continued)

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

	2003	2002
Balance of cash at the beginning of the year	**3,250**	**3,840**
Net cash flows from operating activities	6,210	64,191
Net cash flows from investing activities	(4,517)	(29,450)
Net cash flows from financing activities	(2,350)	(35,331)
Balance of cash as of the end of the reporting period	**2,593**	**3,250**

Total assets and liabilities of discounted operations as of December 31, 2003 and December 31, 2002 as reported in the accompanying consolidated financial statements, were as follows:

	2003	2002
Non-current assets:		
Property, plant and equipment, net	220,510	238,239
Other non-current assets	13,644	13,326
Total non-current assets	**234,154**	**251,565**
Current assets	**44,402**	**37,635**
Total assets	**278,556**	**289,200**
Non-current liabilities:		
Long-term borrowings	(28,851)	-
Deferred income tax liability	(32,000)	(32,151)
Total non-current liabilities	**(60,851)**	**(32,151)**
Total current liabilities	**(47,370)**	**(71,488)**
Total liabilities	**(108,221)**	**(103,639)**
Minority interest	**(83,431)**	**(90,925)**
Total net assets from discontinued operations	**86,904**	**94,582**

28. Pension Plans and Employee Benefits

The Company performed a preliminary actuarial estimate of pension and other post employment and post retirement benefits in June 2004. The valuation of pension liabilities and expenses was made as of January 1, 2002, December 31, 2002 and December 31, 2003.

28. Pension Plans and Employee Benefits (continued)

(in thousands of rubles)

The Company restated its consolidated financial statements as of December 31, 2002 in the following way:

Pension liabilities in the consolidated balance sheet as of December 31, 2001	nil
Restated Pension liabilities	280,000
Total adjustment	280,000
Net expense for pension plan in consolidated statement of operations for the year ended December 31, 2002	nil
Restated Net expense for pension plan	165,000
Total adjustment	165,000

The postemployment and post retirement program of the Company mainly consists of the occupational pension plan. For most participants, this is a defined benefit plan, under which the participants accrue pension entitlements on the basis of a formula, which is specific to each branch of the Company. According to the formula, the pension benefit is dependent on several parameters including the relative pay of participants and their past service. There were approximately 35,500 employees eligible to some part of the postemployment and post retirement program of the Company, of which 16,800 active participants to the defined benefit pension plan, as at December 31, 2003 (as at December 31, 2002: 35,900 employees of which 17,100 participating in the defined benefit pension plan).

The defined benefit pension plan provides old age retirement pension and disability pension. The plan’s old age retirement pension is conditional to the member qualifying for the State old age pension. The Company also provides several long-term employee benefits such as a death-in-service benefit and lump-sum payments upon retirement of a defined benefit nature. Additionally the company provides financial support, of a defined benefit nature, to its old age and disabled pensioners.

For the head office, the cellular branch in Perm and the branches in Chelyabinsk and Perm, the company provides pensions based on defined contribution principles. During 2003 the company made 9.1 mln. rubles (2002: 8.3 mln. rubles) of contributions to such defined contribution pension arrangements, which are in addition to the defined benefit plan related service cost shown below.

For the purposes of June 2004 valuation, members’ census data as at January 1, 2002, December 31, 2002 and December 31, 2003 was collected for all branches of the Company.

(in thousands of rubles)

28. Pension Plans and Employee Benefits (continued)

The amounts recognized in the consolidated balance sheet are as follows:

	2003	2002
Present value of defined benefit obligation (DBO)	1,249,000	1,185,000
Fair value of plan assets	(112,000)	(75,000)
Present value of unfunded obligations	1,137,000	1,110,000
Unrecognised actuarial gains/(losses)	152,000	10,000
Unrecognised past service (cost) / asset	(680,000)	(675,000)
Net liability in the balance sheet	**609,000**	**445,000**
Employees' average remaining working life (years)	12	12

The amounts recognized in the consolidated statement of operations, which included in "Wages, salaries, other benefits and payroll taxes", are as follows:

	2003	2002
Service cost	30,000	30,000
Interest cost	111,000	100,000
Expected return on plan assets	(8,000)	(5,000)
Net actuarial losses/(gains) recognised in year	-	-
Amortisation of past service cost	75,000	75,000
Vested past service cost	-	-
Net expense for the DB pension plan	**208,000**	**200,000**
Contribution to the defined contribution schemes	**9,000**	**8,000**
Net expense for pension plan (total)	**217,000**	**209,000**

Movements in the net liability recognized in the consolidated balance sheet are as follows:

	2003	2002
Net liability at the start of the year	445,000	280,000
Net expense recognised in the statement of operations	208,000	200,000
Contributions	(44,000)	(35,000)
Net liability at the end of the year	**609,000**	**445,000**

28. Pension Plans and Employee Benefits (continued)

(in thousands of rubles)

Principal actuarial assumptions at the valuation dates:

	01/01/2002	31/12/2002	31/122003
Discount rate	9.18% p.a.	9.18% p.a.	9.18% p.a.
Expected return on plan assets	9.58% p.a.	9.51% p.a.	9.26% p.a.
Salary increases	9.18% p.a.	9.18% p.a.	9.18% p.a.
Relative pay increase (career progression)	1% p.a.	1% p.a.	1% p.a.
Rate used for calculation of annuity value	6% p.a.	6% p.a.	6% p.a.
Staff turnover	5% p.a.	5% p.a.	5% p.a.
Mortality tables (source of information)	USSR 1985 - 1986	USSR 1985 - 1986	USSR 1985 - 1986

Movements in the pension account:

	2003	2002
Fair value of plan assets at year start	75,000	35,000
Actual return on plan assets	13,000	10,000
Employer contribution	44,000	35,000
Benefits paid	(20,000)	(5,000)
Fair value of plan assets at end of year	**112,000**	**75,000**

29. Commitments and Contingencies

Economic and political environment in Russia

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

The Company could 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 Company's assets, and the ability of the Company to maintain or pay its debts as they mature. The accompanying financial statements do not include any adjustment that may result from these uncertainties. Such adjustments will be carried in the financial statements as and when they occur and become measurable.

Tax laws and regulations

Legislation and regulations regarding taxation and foreign currency transactions in Russia continue to evolve as the government manages the transformation from a command to a market-oriented economy. During 2002, the Russian Federation enacted a new tax code with

29. Commitments and Contingencies (continued)

Tax laws and regulations (continued)

significant modifications from the prior law. Due to the lack of time and examination of findings by tax authorities it is unknown how many aspects of the new tax code will be interpreted. The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities, the Central Bank and Ministry of Finance. Instances of inconsistent opinions are not unusual.

The Company believes that it has paid or accrued all taxes that are applicable. In cases where interpretations of specific rules are unclear, the Company has accrued tax liabilities based on management's best estimate. The effect of possible discrepancies in interpreting the legal requirements may approximate 8,508. The Company's policy is to accrue for contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. No such accruals have been made as of December 31, 2003.

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

Currently the Company is inspected by local tax authority. The effect of possible disagreements that may arise under this inspection could not be determined. If needed management of the Company intents to defend its poison in court.

Insurance coverage

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

Property, plant and equipment insured as of December 31, 2003, totaled 6,421,683 (2002 – 3,568,125) (see Note 10).

Litigations, claims and assessments

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

29. Commitments and Contingencies (continued)

Litigations, claims and assessments (continued)

(in thousands of rubles)

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

Currently the Company expects notification of claim from GU "Baykalovsky leshos" amounted 30,196. In case if court accepts this claim, management of the Company intents to demand decrease of amount of the claim.

In 2003 the Company filed a claims to Ministry of Labor and Social protection to recover tariff compensation related to services rendered to privileged customers in 2001 and 2002 amounted 96,014. By the decision of Moscow arbitration court these claims were satisfied in 2004. In June 2004 the Company filed next claim to Ministry of Labor and Social protection to recover tariff compensation related to services rendered to privileged customers in 2003 amounted 40,416. Management believes that this clam will be also satisfied.

Finance leasing

In 2003 the Company entered into several finance leases with OAO RTC-Leasing. The equipment under these leases will be delivered in 2004. Cost of equipment acquired through these leases, inclusive of installation and other capitalized services approximated 74,703.

Capital commitments

Oracle E-business

Under its budget for 2004 the Company plans to invest into further installation of Oracle E-business about 370 mln. rubles.

Property, plant and equipment

At December 31, 2003 the Company has commitments of 1,202,927 for capital investments into modernization and expansion of its network.

Guarantees issued

As of December 31, 2003 the Company issued the guarantees of third party' obligations for the amount of 2,083,213 (December 31, 2002 – 705,553).

30. Related parties

The Company's consolidated financial statements include the following amounts as of December 31, 2003 and 2002:

(in thousands of rubles)

	2003	2002
Due from related parties:		
ZAO “Telephonnaya companiya – Ural”	810	484
ZAO “Uralskaya telefonnaya companiya”	7,485	5,534
ZAO “Teleross-Ekaterinburg”	238	120
ZAO “Ural-Teleservis”	877	1,518
ZAO “Kurganskiy sotoviy telefon”	396	226
ZAO “Teleross-Tyumen”	157	502
ZAO “Rostelegraph”	48	-
Total:	**10,011**	**8,384**
Due to related parties:		
ZAO “Teleross-Ekaterinburg”	-	136
ZAO “Telefonnaya companiya – Ural”	771	-
ZAO “Uralskaya telefonnaya companiya”	2,767	112
ZAO “Ural-Teleservis”	11	11
ZAO “Kurganskiy sotoviy telefon”	97	34
OAO “Rostelecom”	344,169	287,577
OAO “RTC-Leasing”	1,530,041	887,528
OAO “Sviazinvest”	1,421	1,421
Total:	**1,879,277**	**1,176,819**

Consolidated statement of operations includes the following transactions for the year ended December 31, 2003 and 2002:

	2003	2002
Sales to related parties:		
ZAO “Telefonnaya companiya – Ural”	6,756	4,769
ZAO “Uralskaya telefonnaya companiya”	52,597	18,231
ZAO “Teleross-Ekaterinburg”	2,182	1,501
ZAO “Ural-Teleservis”	2,717	3,010
ZAO “Kurganskiy sotoviy telefon”	352	468
ZAO “Teleross-Tyumen”	3,208	2,964
OAO “Rostelecom”	350,493	10,511
ZAO “Rostelegraph”	48	-
Total:	**418,353**	**41,454**

(in thousands of rubles)

30. Related parties (continued)

Purchases from related parties:		
ZAO "Telefonnaya companiya – Ural"	5,773	2,626
ZAO "Uralskaya telefonnaya companiya"	21,784	4,415
ZAO "Kurganskiy sotoviy telefon"	149	104
OAO "Rostelecom"	2,001,136	1,664,321
OAO "Sviazinvest"	61,519	38,203
OAO "RTC-Leasing"	813,942	804,981
Total:	**2,904,303**	**2,514,650**

Sales to and purchases from related parties are made at normal market prices.

OAO Svyazinvest

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

An effectively operating telecommunications and data transmission facility is of great importance to Russia for various reasons including economic, strategic and national security considerations. Consequently, the Government has and may be expected to continue to exercise significant influence over the operations of Svyazinvest and its subsidiary companies.

The Government's influence is not confined to its share holdings in Svyazinvest. It has general authority to regulate tariffs and does regulate domestic long distance tariffs to a

limited extent. In addition, the Ministry of Communications and Informatization of the Russian Federation has control over the licensing of providers of telecommunications services.

OAO Rostelecom

Rostelecom, a majority owned subsidiary of Svyazinvest, is the primary provider of domestic long distance and international telecommunications services in the Russian Federation. The Company has negotiated agreements with Rostelecom for interconnection of domestic long distance and international telecommunications, and other services, including lease of channels.

In 2003, Rostelecom reformed its system of settlements with regional operators for domestic long-distance traffic. Prior to July 31, 2003, settlements between the Company and Rostelecom were based on the integral settlement rate (ISR) per one minute of domestic transit traffic sent through 50 km of Rostelecom networks.

The ISR contains two components - a linear component and a termination charge, which is calculated based on the weighted average of incoming and outgoing traffic. The ISR was set

30. Related parties (continued)

(in thousands of rubles)

OAO Rostelecom (continued)

once a year by the Ministry of Antimonopoly Policies and Entrepreneurship Support based on the traffic data for the preceding year and did not reflect the real economic benefits and costs associated with traffic changes in subsequent periods.

Beginning from August 1, 2003, the Company began to settle with Rostelecom using the linear settlement rate (LSR) which includes the cost of Rostelecom carrying and benefits to the Company in terminating domestic long-distance traffic. LSR implementation allowed the Company to receive revenues for terminating domestic long-distance traffic based on actual volumes of traffic in the current period, which increased revenue by 314,700.

RTC-Leasing

OAO RTC-Leasing was a subsidiary of OAO Rostelecom at the beginning of the year. OAO RTC-Leasing purchases telecommunications equipment from Russian and foreign vendors and leases the equipment. The Company’s obligations under capital leases to OAO RTC-Leasing included in accompanying consolidated balance sheet as at December 31, 2003 amounted to 835,542 of which 721,490 is the principal and 114,051 is the accrued interest.

The Company issued guarantees for certain loans received by RTC-Leasing from Sberbank for total amount of 1,833,695.

Transactions with government organizations

Government organizations are a significant element in the Company’s customer base, purchasing services both directly through numerous authorities and indirectly through their affiliates. Certain entities financed by the Government budget are users of the Company’s network. These entities are generally charged lower tariffs as approved by the Ministry of Antimonopoly Policies and Entrepreneurship Support than those charged to other customers. In addition, the Government may by law require the Company to provide certain services to the Government in connection with national security and the detection of crime.

Government subscribers accounted for approximately 8% of trade accounts receivable as of December 31, 2003. Amounts outstanding from government subscribers as of December 31, 2003, amounted to 186,570.

Associates

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

The Company issued guarantees for certain loans received by OOO “Uzhno-uralsky sotoviy telefon” from OAO “Chelyndbank” for total amount of 29,250.

30. Related parties (continued)

(in thousands of rubles)

Non-commercial partnership Center for Research of Problems in Development of Telecommunications

Non-commercial partnership Center for Research of the Problems in Development of Telecommunications (hereinafter "the Partnership") is an entity related to OAO Svyazinvest. The Company has an agreement with the Partnership, under which it provides financing for mutually beneficial projects undertaken by the Partnership on behalf of the Company and other subsidiaries and associates of Svyazinvest. Payments to the Partnership included in Other income (expenses) in accompanying consolidated statement of operations for the year ended December 31, 2003 amounted to 188,992 (2002 -147,000).

NPF “Telecom-Soyuz”

The Company has concluded several pension plans agreements with NPF “Telecom-Soyuz” which is a related party of Svyazinvest (see Note 28 “Pension Plans and Employee Benefits”). Payments to this pension fund in 2003 amounted 35 955 (2002 – 29 575).

Compensation of the Company's management

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

Chairman	Belov V.E.
Member of board of directors	Rybakin V.I.
Member of board of directors	Adjalov V.I.
Member of board of directors	Bilibin Y.A.
Member of board of directors	Grigorieva A.B.
Member of board of directors	Jolobov V.S.
Member of board of directors	Kozin V.V.
Member of board of directors	Levkovsky D.V.
Member of board of directors	Perminov L.M.
Member of board of directors	Chernogorodsky C.V.
Member of board of directors	Urpalov S.Y.

In 2003, compensation to the members of the Board and to the Company’s management totaled 45,454 (2002 – 17,989).

31. Financial instruments

Fair value

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

(in thousands of rubles)

31. Financial instruments (continued)

Interest rate risk

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

Year ended December 31, 2003:

	< 1 year	1-5 years	> 5 years	Total
Fixed rate				
Short-term borrowings	2,045,474	-	-	**2,045,474**
Long-term borrowings	1,256,520	7,710,876	-	**8,967,396**
Finance lease obligations	357,801	753,863		**1,111,664**
Floating rate				
Short-term borrowings	33,734	-	-	**33,734**
Long-term borrowings	-	35,721	32,093	**67,814**
Total	**3,693,529**	**8,500,460**	**32,093**	**12,226,082**

Year ended December 31, 2002:

	< 1 year	1-5 years	> 5 years	Total
Fixed rate				
Short-term borrowings	1,869,292	-	-	**1,869,292**
Long-term borrowings	1,724,986	3,501,932	-	**5,226,918**
Finance lease obligations	525,891	328,866	-	**854,757**
Floating rate				
Short-term borrowings	-	-	-	**-**
Long-term borrowings	-	92,167	32,093	**124,260**
Total	**4,120,169**	**3,922,965**	**32,093**	**8,075,227**

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

Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Company that are not included into the above tables are non-interest bearing and are therefore not subject to interest rate risk.

32. Subsequent events

Contracts

(1) Loan agreement with Gazprombank

On January 13, 2004, OAO “Uralsvyazinform” entered into a loan agreement with Gazprombank for 490,000. The loan matures on May 27, 2004. OAO “Uralsvyazinform”

32. Subsequent events (continued)

Contracts (continued)

(1) Loan agreement with Gazprombank (continued)

pays interest on loan to the bank at the rate of 12 % per annum. The loan is collateralized with telecommunications equipment valued at 596,400 thousand rubles.

(2) Loan agreement with Sberbank

On January 30, 2004, OAO "Uralsvyazinform" entered into a loan agreement with Sberbank for 173,000. The loan matures on January 29, 2009. OAO "Uralsvyazinform" pays interest on loan to the bank at the rate of 14.5 % per annum. The loan is collateralized with telecommunications equipment valued at 198,112 thousand rubles.

(3) Loan agreement with Promstroybank

On May 26, 2004, OAO "Uralsvyazinform" entered into a loan agreement with Promstroybank for 400,000. The loan matures on May 26, 2005. OAO "Uralsvyazinform" pays interest on loan to the bank at the rate of 13.5 % per annum. The loan is not collateralized.

Finance lease agreements with OAO RTC-Leasing

In 2004, the Company entered into several finance lease agreements with OAO RTC-Leasing with the respective non-discounted future cash flows totaling approximately 1,115 million Rubles.

Dividends

On May 20, 2004, the Company's Board of Directors approved dividends for 2003 in the amount of 0.01848 rubles per preferred share and 0.01 rubles per ordinary share. Total dividends declared amounted to 144,837 and 322,988 for preferred and ordinary shares, respectively. Dividends for the year ended December 31, 2003, are payable during 2004 and shall be carried in the financial statements for the year ended December 31, 2004 (see also Note 9, "Dividends Paid and Proposed").

Tariffs for telecom services

The Company has not changed the tariffs for monthly subscribers fees for local services and long distance calls - national in 2004. There was increase in tariff for telegraph services by 20% for Ural region and by 30% for Northern regions effective from January 10, 2004. Tariffs for long distance call - international were changed on April 1, 2004: the tariffs increased by 12% for individuals, the tariffs decreased by 15% for commercial entities. The tariff for Internet dercreased by 15% in Khanty-Mansiysk's branch of the Company, and remained on the same level for other branches of the Company. The tariffs for cellular communication services decreased by 25-30% starting from February till May 2004.

32. Subsequent events (continued)

(in thousands of rubles)

Telecommunication Law

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

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

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

Management cannot predict with any certainty how the new law will affect the Company.

Decrease of VAT rate

Effective from January 2004 there was VAT rate decrease from 20% to 18%.