OAO "CenterTelecom"

Consolidated Financial Statements as of December 31, 2002

with Independent Auditors' Report

OAO CenterTelecom

Consolidated Financial Statements as of December 31, 2002

Contents

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of OAO "Center Telecom":

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

2. Except as discussed in paragraphs 4, 5 and 6, we conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

4. As described in Note 20 "Pension Plans and Employee Benefits", the Company has not determined and presented its assets and obligations existing under defined benefits plans in accordance with IAS 19, "Employee Benefits".

5. As described in Note 8 "Property, Plant and Equipment", the Company's accounting records relating to property and equipment are not designed to support their presentation in accordance with IAS 16, "Property, Plant and Equipment", IAS 29, "Financial Reporting in Hyperinflationary Economies" and IAS 36, "Impairment of Assets". As such, certain estimates were made by management to present property and equipment in the accompanying consolidated 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 analyze more accurately the assumptions and estimates made by management.

6. We were unable to obtain sufficient audit evidence for revenue transactions in the Luberetsky branch of the Company for the period till September 30, 2002. The Company does not possess the information about the amounts of services provided, operating expenses incurred and accounts receivable balance attributable to the customers of the Company's Luberetsky branch, since the information regarding national and international calls and settlements with customers is processed by a third party.

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

8. In our opinion, except for the effects on the consolidated financial statements of such adjustments, if any, from the matters referred to in paragraphs 4, 5 and 6 above, and except for not presenting comparative amounts for the year ended December 31, 2001, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO "Center Telecom" as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

9. As described in Note 1 "Corporate Information", the Company was the subject of a reorganization that was approved by the shareholders on February 22, 2002. 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 consolidated financial statements as if the entities had been combined from January 1, 2002, the earliest period presented.

July 31, 2003

Consolidated Balance Sheet
As of December 31, 2002

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

	Notes	2002
ASSETS		
Non-current assets		
Property, plant and equipment, net	8	20,606,263
Intangible assets and goodwill, net	9	95,477
Investments in associates	11	42,345
Advances to suppliers of equipment		254,000
Other investments		32,399
Total non-current assets		**21,030,484**
Current assets		
Inventories, net	12	551,267
Trade accounts receivable, net	13	1,291,628
Other current assets	14	1,337,562
Cash and cash equivalents	15	307,291
Total current assets		3,487,748
Total assets		**24,518,232**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital, preference shares	16	157,798
Share capital, ordinary shares	16	473,402
Inflation impact on share capital		588,166
Retained earnings and other reserves		12,753,936
Total shareholders' equity		**13,973,302**
Minority interest	2	**17,569**
Non-current liabilities		
Long-term borrowings	17	2,155,260
Finance lease obligations	18	390,060
Equipment contributions		582,327
Deferred tax liability	5	308,700
Other long-term liabilities		17,368
Total non-current liabilities		**3,453,715**
Current liabilities		
Trade accounts payable and accrued liabilities	19	2,592,590
Payable to Rostelecom	22	238,719
Taxes and payroll related obligations		847,144
Dividends payable	7	31,075
Short-term borrowings	17	2,025,599
Current portion of long-term borrowings	17	939,389
Current portion of finance lease obligations	18	399,130
Total current liabilities		**7,073,646**
Total shareholders' equity and liabilities		**24,518,232**

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

Consolidated Statement of Operations
For the year ended December 31, 2002

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

	Notes	**2002**
Revenues	4	**17,486,043**
Operating expenses		
Wages, salaries, other benefits and payroll taxes	20	(6,283,
Interconnection charges		(1,855,
Materials, repairs, maintenance and utilities		(1,820,
Taxes other than income tax		(540,413)
Depreciation and amortization		(3,478,
Loss on disposal of property and equipment		(196,175)
Bad debts expense		(376,364)
Other operating expenses	4	(1,428,
Total operating expenses		**(15,979,**
Operating income/loss		**1,506,817**
Loss from associates		(6,580)
Interest expenses, net		(770,040)
Loss from other investments, net		(105,812)
Other expenses, net		(418,083)
Net foreign exchange loss		(561,548)
Net monetary gain		401,432
Total non-operating expenses		**(1,460,**
Income before taxation and minority interest		**46,186**
Income tax benefit, net	5	**42,566**
Income before minority interest		**88,752**
Minority interest		**(8,093)**
Net income		**80,659**
Dividends on preference shares	7	**(116,953)**
Net loss attributable to ordinary shareholders		**(36,294)**
Basic and diluted loss per share (Russian Rubles)	6	**(0.02)**

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

Consolidated Statement of Cash Flows
For the year ended December 31, 2002

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

	2002
Cash flows from operating activities:	
Income before taxation and minority interest	46,186
Adjustments for:	
Net foreign currency exchange loss	561,548
Net monetary gain	(401,432)
Depreciation and amortization	3,478,065
Loss from sale of property and equipment and other assets	198,539
Loss from associates (net)	6,580
Loss from other investments (net)	105,812
Interest expense	770,040
Bad debt expense	376,364
Operating profit before working capital changes	**5,141,702**
Increase in trade accounts receivable	(729,807)
Increase in other current assets	(339,040)
Increase in inventories	(76,181)
Increase in trade accounts payables and accrued liabilities	493,534
Net cash generated from operations	**4,490,208**
Interest paid	(529,130)
Income tax paid	(521,209)
Net cash provided by operating activities	**3,439,869**
Cash flows from investing activities:	
Purchase of property, plant and equipment	(3,688,080)
Investments into securities and other	(72,100)
Proceeds arising from disposal of property and equipment	548,322
Interest received	6,300
Net cash used in investing activities	**(3,205,558)**
Cash flows from financing activities:	
Proceeds from borrowings	1,708,212
Repayments of borrowings	(1,725,410)
Dividends paid	(225,156)
Net cash generated from financing activities	**191,141**
Inflationary effect on cash and cash equivalents	(170,875)
Net (decrease)/increase in cash and cash equivalents	**(178,918)**
Cash and cash equivalents at the beginning of the year	**486,209**
Cash and cash equivalents at the end of the year	**307,291**
Non – monetary operations:	
Equipment contributions	**61,107**

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

Consolidated Statement of Shareholders' Equity
For the year ended December 31, 2002

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

	Notes	Share Capital (nominal)		Inflation impact on share capital	Retained earnings and other reserves	Total equity
		Preference shares	Ordinary shares			
At 31 December 2001		**157,798**	**473,402**	**588,166**	**12,907,647**	**14,127,013**
Net loss for the year		–	–	–	80,659	80,659
Dividends for 2001	7	–	–	–	(234,370)	(234,370)
At 31 December 2002		**157,798**	**473,402**	**588,166**	**12,753,936**	**13,973,302**

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

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

1. Corporate Information

Authorization of Accounts

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

The Company

The Company is an open joint stock company incorporated in Russia. The Company completed its last charter registration on June 5, 2002. This amendment was due to the process of reorganization of OAO "CenterTelecom".

The Company is the legal successor of the State Enterprise of Telecommunications and Informatics "Rossvyazinform" of the Central and Central Chernozem regions in the area of telecommunications and wire broadcasting which was privatized in 1994 by transformation into open joint stock company.

OAO "Electrosvyaz" of Moscow region (since 2001 OAO "CenterTelecom") was the base company, which merged open joint stock telecommunication companies of the Central and Central Chernozem regions which was stated in the Charter approved by the annual shareholder meeting of OAO "CenterTelecom" on June 5, 2002, and registered on June 13, 2002 at the Moscow Regional Registration Chamber.

The Company provides telecommunication services (including local, national and international voice telephone services), telegraph, data transmission, line leasing and wireless services over the territory of Central region of Russian Federation.

As of 31 December 2002 the state-controlled telecommunication holding company OAO "Svyazinvest" owned 51% of the Company's voting shares.

The average number of employees in the Company in 2002 was 72,088 persons (after giving retroactive effect of the reorganization described below).

The registered office of the Company is at Moscow region, Khimki, ul. Proletarskaya, 29.

1. Corporate Information (continued)

2002 Reorganization

In June 2002 the Company's management started reorganization by obtaining shareholder approval to merge the following regional enterprises of OAO "Svyazinvest" Group. Each Company's share (ordinary and preference) was exchanged for 100% of the respective class of shares of regional enterprises at the same exchange ratios. The ordinary shares were exchanged as follows:

Enterprise	Number of ordinary shares before merge	Exchange ratio	Number of ordinary shares after merge
OAO "CenterTelecom"	463,773,939	1	463,773,939
OAO "Belgorod Electrosvyaz"	3,989,604	19.27	76,881,850
OAO "Bryansksvyazinform"	11,442,235	4.41	50,427,950
OAO "Valdimir Region Elektrosvyaz"	176,425,288	0.43	75,228,952
OAO "Voronezhsvyazinform"	3,313,020	47.41	157,072,065
OAO "Ivtelecom"	105,077,152	0.45	47,121,268
OAO "Kaluga Region Elektrosvyaz"	3,066,870	22.27	68,284,675
OAO "Kostroma Region Elektrosvyaz"	1,185,713	20.92	24,800,276
OAO "Kursk Region Elektrosvyaz"	6,720,481	6.81	45,798,670
OAO "Lipetskelektrosvyaz"	32,392,917	1.91	62,001,975
OAO "Orel Region Elektrosvyaz"	7,919,944	5.53	43,814,499
OAO "Ryazan Region Elektrosvyaz"	10,730,247	4.55	48,774,338
OAO "Smolensksvyazinform"	11,450,844	5.27	60,348,771
OAO "Tambov Elektrosvyaz"	5,664,245	10.80	61,174,948
OAO "Tulatelecom"	276,800,520	0.38	104,016,491
OAO "Tver Region Elektrosvyaz"	158,208	496.41	78,535,694
OAO "Yartelecom"	8,100,212	13.57	109,950,472
Total			**1,578,006,833**

The merger was completed and effective on November 30, 2002. Transaction costs related to the merger were 165,622 and recognized as "Other expenses" in the accompanying consolidates statement of operations for the year ended December 31, 2002.

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

1. Corporate Information (continued)

2002 Reorganization (continued)

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

The Company	Total Assets	Total Liabilities	Revenue	Pre-tax Income (loss)
OAO "CenterTelecom"	7,100,485	4,317,148	4,352,382	(482,043)
OAO "Belgorod Electrosvyaz"	981,285	395,902	933,610	18,572
OAO "Bryansksvyazinform"	633,917	228,707	645,394	48,313
OAO "Valdimir Region Elektrosvyaz"	705,432	293,513	907,039	138,581
OAO "Voronezhsvyazinform"	2,305,308	818,270	1,615,660	(221,281)
OAO "Ivtelecom"	546,394	370,799	593,515	(38,072)
OAO "Kaluga Region Elektrosvyaz"	613,892	61,478	796,023	110,419
OAO "Kostroma Region Elektrosvyaz"	350,344	174,976	339,635	(25,153)
OAO "Kursk Region Elektrosvyaz"	820,058	355,527	557,218	26,682
OAO "Lipetskelektrosvyaz"	1,280,737	581,492	805,493	(56,149)
OAO "Orel Region Elektrosvyaz"	1,325,281	572,321	470,489	131,477
OAO "Ryazan Region Elektrosvyaz"	874,008	305,636	682,058	89,925
OAO "Smolensksvyazinform"	691,121	205,853	740,546	47,652
OAO "Tambov Elektrosvyaz"	859,485	412,486	804,125	152,401
OAO "Tulatelecom"	1,036,047	558,184	1,123,361	11,994
OAO "Tver Region Elektrosvyaz"	1,082,480	265,105	791,148	79,423
OAO "Yartelecom"	3,206,615	612,355	1,220,405	26,752
Subsidiaries	84,006	45,950	109,347	14,352
Eliminations and other adjustments	21,337	(48,341)	(1,405)	(27,659)
Total	**24,518,232**	**10,527,361**	**17,486,043**	**46,186**

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

1. Corporate Information (continued)

Russian Business Environment

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

Management cannot predict what effect changes in fiscal, political or tariffing policies may have on the Company's current financial position or its ability to make future investments in property, plant and equipment. The consolidated financial statements do not include any adjustments that might result from these uncertainties. Related effects will be reported in the consolidated financial statements, as they become known and estimable.

Liquidity and Financial Resources

As of December 31, 2002, the Company's current liabilities exceeded its current assets by 3,585,898. As a result, significant uncertainties exist as to the Company's liquidity and future capital resources.

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

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

Through 2003, the Company anticipates funding from a) available cash reserves, b) cash generated from operations, c) placement of ruble bonds in the Russian market, and d) other financing from domestic and international lending institutions. 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 consolidated 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 consolidated 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 reports have been adjusted 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) come into force. Significant differences exist between the Russian Accounting Regulations and IFRS.

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

Financial Statements Presentation

Financial statement presentation herein is limited to the consolidated balance sheet as of December 31, 2002 and the related consolidated statements of operations, cash flow and shareholder's equity for the year ended December 31, 2002. A comparative balance sheet as of December 31, 2001, along with separate comparative statements of operations, cash flow and shareholder's equity for the year ended December 31, 2001, and the related note disclosures for such comparative financial statements, as required IAS 1, "Presentation of Financial Statements", have not been presented. Following the reorganization described in Note 1, the Company believes that presentation of comparative financial information is not practicable.

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.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. As described elsewhere, the Company has accounted for the reorganization based on the principles of uniting of interests as described in IAS 22, "Business Combinations".

2. Summary of Significant Accounting Policies (continued)

Basis of Consolidation (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. Significant intercompany balances and transactions have been eliminated.

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

Investments in Associates

The Company's investments in associates are accounted for under the equity method. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company. Investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The income statement reflects the Company's share of the results of operations of the associates.

Accounting for the Effects of Inflation

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

Effective from January 1, 2003, international accounting and financial reporting bodies have determined that the Russian Federation no longer meets the criteria of IAS 29 for hyperinflation. As a result, management has determined that it will cease to restate for changes in the general purchasing power of the ruble subsequent to December 31, 2002. The annual rate of inflation during 2002 was 15.1%.

Foreign Currency Translation

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

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

Property and Equipment are valued at historic cost adjusted for inflation indexes indicated above, except for Property and Equipment purchased prior to 1999, and valued at historic cost adjusted at the Russian government-set revaluation indexes through January 1, 1998, and thereafter - for inflation indexes indicated above. The Russian government-set revaluation indexes had been primarily used for tax purposes, and do not reflect the inflation. Thus, this valuation method is not acceptable under IAS 16 'Property, Plant and Equipment'.

The Company plans to hire an independent appraiser in 2003 to reconstruct the historical cost of the above Property and Equipment, in order to make the necessary adjustments to the Company's books and records, in order to comply with IAS 16.

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

Buildings and constructions	20-50 years
Analogue switches	10-20 years
Digital switches	10-15 years
Cable and transmission devices:	
Duct	10-20 years
Radio and fixed link transmission equipment	10-20 years
Vehicles	5 years
Computers, office and other equipment	3-5 years

Construction in progress is recorded as the total of actual expenses incurred by the Company from the beginning of construction to the reporting date, adjusted for the effect of inflation from the date when such expenses occur to the reporting date in accordance with IAS 29. Construction in progress is depreciated once 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 when the activities to prepare the asset for intended use start and lasts until the assets are ready for their intended use. Other interest expenses and borrowing costs are recognized as expenses in the period in which they are incurred.

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

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 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.

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 and Goodwill

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

Goodwill acquired as part of an acquisition of a business is recognized at cost less any accumulated amortization and any accumulated impairment losses. Goodwill is amortized on a straight-line basis over the estimated economic useful lives.

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

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

The majority of the Company’s investments are in securities that are not actively traded on organized financial markets. 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 primarily using the specific identification method.

Accounts Receivable

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

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in the Company’s bank accounts, as well as cash deposits and short-term investments with original maturity dates of three months or less as of December 31, 2002.

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.

2. Summary of Significant Accounting Policies (continued)

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 35.6% to approximately 18% to the annual gross remuneration of each employee. The Company allocates UST to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund vary from 28% to 14% depending on the annual gross salary of each employee. The Company's contributions relating to the UST are expensed in the year to which they relate.

Under collective bargaining agreements, the Company also provides post-employment retirement benefits. The majority of the Company's employees are eligible to participate under such defined benefit plans based upon a number of factors, including years of service, age and compensation. The Company has not complied with IAS 19, "Employee Benefits". Specifically, the Company has not made an actuarial determination of the present value of its benefit obligation under these arrangements to allow it to record its obligation and make the required disclosures under IAS 19 as of December 31, 2002. In order to fund a portion of the Company's obligation, the Company has committed to contribute agreed amounts (negotiated annually) to certain non-government pension plans. Contributions made by the Company to these plans are charged to expense when incurred.

The Company has not complied with IAS 19, "Employee Benefits". Specifically, the Company has not made an actuarial determination of the present value of its benefit obligation under these arrangements to allow it to record its obligation and make the required disclosures under IAS 19 as of December 31, 2002.

2. Summary of Significant Accounting Policies (continued)

Leases

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

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

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

Revenue

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

The Company categorizes the revenue sources in ten major categories:

1. Monthly subscription fees;
2. Air time charges (international, national, local);
3. Network services;
4. Installation fees;
5. Internet services;
6. Radio broadcasting;
7. Telegraph services;
8. Wireless services;
9. Other telecommunication services;
10. Other services.

Monthly subscription fees

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

Air time charges (international, national, local)

Air time charges are based on time used by the caller, the destination of the call and the services utilized. The Company charges air time fees on a per-minute basis. The Company recognizes air time charges in the period when the services are rendered.

2. Summary of Significant Accounting Policies (continued)

Revenue (continued)

Network services

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

Installation fees

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

Internet services

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

Radio broadcasting

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

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.

Wireless services

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

Other telecommunication services

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

Other services

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

2. Summary of Significant Accounting Policies (continued)

Income Tax

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

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

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

Value-Added Tax

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

Derivative Financial Instruments

The Company has not entered into contracts that management believes would qualify as derivative financial instruments.

3. Segment Information

The Company provides telecommunication (wire and wireless) services. Management considers that the Company operates in one geographical segment. Certain services provided between the wire and wireless segments are not invoiced, and accordingly not recognized, between the branches of the Company performing such services. The Company currently manages its business as one operating and geographical segment, and accordingly, segment information is not reported.

4. Revenues and Other Operating Expenses

Revenues

	2002
Air time charges, national	6,385,556
Monthly subscription fees	4,108,603
Installation fees	1,452,016
Air time charges, international	1,361,376
Air time charges, local	606,513
Radio broadcasting	500,830
Wireless services	367,491
Rent of channels	337,758
Telegraph services	191,954
Data transmission services	99,845
Network services	27,033
Other revenues	2,047,068
Total	**17,486,043**

Revenues other than telecommunication revenues primarily consist of revenue from sales of telecommunication equipment and its technical support, sales of handsets and accessories, transportation services and other social infrastructure and goods and services provided by non-core subsidiaries.

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

	2002
Residential customers	10,395,655
Corporate customers	5,765,840
Government customers	1,324,548
Total	**17,486,043**

Other Operating Expenses

	2002
Rent of premises	241,028
Fire and other security services	197,603
Payments to Gossvyaznadzor	181,241
Cost of goods sold	155,490
Transportation services	116,338
Audit and consulting expenses	114,404
Training expenses	64,493
Advertising	61,599
Repair of administrative premises	59,635
Business trip expenses	48,588
Post services	38,474
Entertainment costs	5,798
Insurance	4,021
Other	140,272
Total	**1,428,984**

5. Income Tax

Income Tax Expense

	2002
Current income tax expense	(563,520)
Deferred income tax benefit	606,086
Net income tax benefit	**42,566**

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

	2002
Profit from operating activities before income tax	**46,186**
Theoretical tax charge at statutory income tax rate of 24%	(11,085)
Effect of:	
Expenses not deductible for tax purposes	137,523
Permanent losses from changes in the ruble purchasing power	445,295
Reduction of valuation allowance for deferred tax assets	(358,773)
Inflation effect on deferred tax balance at beginning of year	(28,873)
Other	(141,521)
Income tax benefit reported in the accompanying financial statements	**42,566**

Deferred Income Tax

	December, 31 2002
Deferred income tax assets:	
Accounts payable	112,842
Accounts receivable	36,854
Other	15,918
Deferred tax asset, total	**165,614**
Deferred income tax liabilities:	
Property, plant and equipment	(460,023)
Inventory	(3,535)
Investment valuation difference	(10,756)
Deferred income tax liability, total	**(474,314)**
Net deferred income tax liability	**(308,700)**

6. Earnings per Share

Basic earnings (losses) per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Ordinary shares issued as part of the reorganization, have been accounted for similar to a uniting of interests and are included in the calculation of the weighted average number of shares from January 1, 2002 as the consolidated financial statements of the Company were prepared as if the combined entity had been completed.

6. Earnings per Share (continued)

Fully diluted earnings (losses) per share assume that convertible preferred stock was converted into common stock as of the beginning of the year (except for those conversions for which the effect is anti-dilutive). As of 31 December 2002 the Company has no potential dilutive ordinary shares, therefore, diluted loss per share equals basic loss per share.

	2002
Net loss attributable to ordinary shareholders	(36,294)
Weighted average number of ordinary shares for basic earnings per share	1,578,006,833
Loss per ordinary share, Rubles (basic)	0.02

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

7. Dividends Paid and Proposed

Declared and paid during the year (for the year 2001)

The annual general shareholders meeting of OAO "CenterTelecom" held on June 5, 2002 declared the following dividends for 2001:

- *ordinary shares*: 0.026 rubles per share (0.028 rubles in terms of purchasing power of the ruble at December 31, 2002);
- *preference shares* of A type: 0.077 rubles per share (0.083 rubles in terms of purchasing power of the ruble at December 31, 2002);
- *on preference shares* of B type: 0.038 rubles per share (0.041 rubles in terms of purchasing power of the ruble at December 31, 2002).

Dividends on ordinary shares	117,4
Dividends on preference shares	116,9
Total	**234,3**

In 2002 type B preference shares were converted to ordinary shares.

Proposed for annual shareholder meeting (for the year 2002)

The annual general shareholders meeting of OAO "CenterTelecom" held on June 24, 2003 declared the following dividends for 2002:

- *ordinary shares*: 0.096 rubles per share;
- *preference shares*: 0.206 rubles per share;

Dividends on ordinary shares	151,5
Dividends on preference shares	108,4
Total	**260,0**

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

8. Property, Plant and Equipment

	Buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Machines and other	Total
Cost					
At January 1, 2002	37,013,739	34,551,384	1,819,466	11,211,733	84,596,322
Additions	**–**	**1,666**	**5,560,751**	**131**	**5,562,548**
Disposals	**(640,586)**	**(1,093,175)**	**(177,552)**	**(841,977)**	**(2,753,290)**
Transfers	**1,196,932**	**2,696,973**	**(5,144,502)**	**1,250,597**	**–**
At December 31, 2002	**37,570,085**	**36,156,848**	**2,058,163**	**11,620,484**	**87,405,580**
Impairment					
At January 1, 2002	(2,581,274)	(2,567,527)	(208,477)	(253,083)	(5,610,361)
Disposals	**20,971**	**19,566**	**1,686**	**1,815**	**44,038**
At December 31, 2002	**(2,560,303)**	**(2,547,961)**	**(206,791)**	**(251,268)**	**(5,566,323)**
Accumulated depreciation					
At January 1, 2002	(25,651,679)	(25,431,616)	–	(8,547,354)	(59,630,649)
Charge for the year	**(921,094)**	**(1,766,779)**	**–**	**(770,290)**	**(3,458,163)**
Disposals	**446,951**	**880,660**	**–**	**528,207**	**1,855,818**
At December 31, 2002	**(26,125,822)**	**(26,317,735)**	–	**(8,789,437)**	**(61,232,994)**
Net book value as of December 31, 2002	**8,883,960**	**7,291,152**	**1,851,372**	**2,579,779**	**20,606,263**

As of December 31, 1998 the Company reviewed its long-lived assets for impairment. Indicators of possible impairment of the long-term assets were noted by the management after the August 1998 economic crisis in Russia. In particular, a significant devaluation of the ruble resulted in the significant increase of payables to foreign vendors for purchased telecommunication equipment while revenues remained overall at a pre-crisis level as the service tariffs are set in rubles and were not increased in line with the ruble devaluation. As a result, in 1998 the Company recognized impairment reserve.

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 consolidated financial statements.

During 2002 equipment in the amount of 1,511,030 was acquired via vendor financing and deferral of payments.

The carrying value of plant and equipment held under finance leases at December 31, 2002 is 938,389. Leased assets are pledged as security for the related finance lease obligations.

The total interest costs capitalized during 2002 amounted to 34,771.

Buildings and equipment with a book value of 2,415,932 as of December 31, 2002 secure the Company's borrowings.

As of December 31, 2002 the Company has equipment purchase commitments amounting to 1,308,197.

9. Intangible Assets and Goodwill

	Goodwill	Intangible assets	Total
Cost			
At January 1, 2002	–	58,122	58,122
Additions	**29,319**	**44,819**	**74,138**
Disposals	**–**	**(18,508)**	**(18,508)**
At December 31, 2002	**29,319**	**84,433**	**113,752**
Accumulated amortization			
At January 1, 2002	–	(4,958)	(4,958)
Charge for the year	(5,207)	(9,175)	(14,382)
Disposals	–	1,065	1,065
At December 31, 2002	**(5,207)**	**(13,068)**	**(18,275)**
Net book value at December 31, 2002	**24,112**	**71,365**	**95,477**

In 2002 the Company acquired 51% of ZAO "Moteco" (see Note 10), which resulted in acquisition goodwill in the amount of 29,319.

10. Subsidiaries

The consolidated financial statements include the financial statements of OAO "CenterTelecom" and its subsidiaries. The Company's principal subsidiaries are listed in the following table:

Subsidiary	Main Activity	Voting Shares
OOO "MobilCom"	Telecom services	100%
OOO "Teleport Ivanovo"	Telecom services	100%
OOO "VladPage"	Telecom services	75%
ZAO "Moteco"	Telecom services	51%
OOO "Telecom-Terminal"	Repair and maintenance services	100%
OOO "Telecom-Stroi"	Construction services	100%
OOO "Svyaz-Service-Irga"	Repair and maintenance services	70%
OOO "Vladimirsky Taksophon"	Telecom services	51%
ZAO "Telecom of Ryazan Region"	Telecom services	51%

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

11. Investments in Associates

Associate	Main Activity	Voting Shares	As of December 31, 2002
OAO "Gazenergobank"	Financial services	31%	4,863
ZAO "Belgorod Cellular"	Telecom services	30%	14,659
OAO "Sanatorium Krugozor"	Resort and hospitality	38%	19,480
Other			3,343
Total			**42,345**

11. Investments in Associates (continued)

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

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

12. Inventories

	2002
Cable, materials and spare parts for telecommunication equipment	508,260
Goods for sale	39,883
Other inventories	3,124
Total	**551,267**

13. Trade Accounts Receivable

	2002
Trade receivables	1,850,515
Less allowance for doubtful accounts	(558,887)
Total	**1,291,628**

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

	2002
Government customers	809,027
Corporate customers	504,585
Residential customers	536,903
Total	**1,850,515**

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 carrying out its non-core business.

14. Other Current Assets

Other current assets at 31 December 2002 comprised the following:

	2002
Prepayments and advances	209,487
Settlements with personnel	21,535
VAT recoverable	441,550
Income tax prepaid	60,305
Other taxes prepaid	304,192
Notes receivable	115,661
Other receivables	184,832
Total	**1,337,562**

15. Cash and Cash Equivalents

	2002
Cash at bank and in hand, rubles	261,773
Cash at bank and in hand, foreign currencies	14,127
Short-term bank deposits, rubles	13,815
Short-term bank deposits, foreign currencies	10,148
Other	7,428
Total	**307,291**

16. Share Capital

Share capital:	**2002**	
	Shares	Share capital
Preference shares with par value of 0.3 Rubles each,		
Shares issued and outstanding as of December 31, 2002	525,992,882	157,798
Shares authorized, not issued	25,405,178	
Ordinary shares with par value of 0.3 Rubles each,		
Shares issued and outstanding as of December 31, 2002	1,578,006,833	473,402
Shares authorized, not issued	76,166,167	
Total share capital		**631,200**

The state registration of the charter documents was completed on February 20, 2003. In accordance with IAS 10, “Events After the Balance Sheet Date”, such changes of the charter capital were recognized as of December 31, 2002 in the accompanying consolidated financial statements.

16. Share Capital (continued)

The share capital account represents the authorized capital of the Company as stated in the charter documents. The Company had 1,578,006,833 ordinary shares and 525,992,882 preference shares type A as of December 31, 2002. All shares have a par value of 0.3 rubles. Of the share capital issued as of December 31, 2002, 75% was attributable to ordinary shares and 25% attributable to preference shares, A-type. The ordinary shareholders are allowed one vote per share. Preference shares A-type are non-voting. All ordinary shares and preference shares A-type are eligible for distribution of ruble earnings available in accordance with Russian statutory accounting regulations. Each preference share A-type is entitled to a minimum an annual dividend in the amount 10% of statutory net income available for dividends. Dividends on preference shares type A may not be less than dividends on ordinary shares. Shareholders of preference shares A-type have a preference right to recover the par value of preference shares in liquidation.

In 2001 the Company concluded a Depositary Agreement with JP Morgan Chase Bank in respect of American Depositary Receipts (ADRs), Level 1. The issue was registered on August 22, 2001. In accordance with the depositary agreement each ADR is equal to 100 ordinary shares of the Company. As at December 31, 2002, 33,500 ADRs represented 3,350,000 deposited ordinary shares, which constituted 0.21 % of total ordinary shares issued and outstanding.

The Company's shareholding structure as of December 31, 2002 is as follows:

	Ordinary shares		**Preference shares**		**Total shares**
		%		**%**	
OAO "Svyazinvest"	799,867,813	50.69	–		799,867,813
Other legal entities	651,368,008	41.28	416,404,990	79.17	1,067,772,998
Individuals	126,771,012	8.03	109,587,832	20.83	236,358,844
Total:	**1,578,006,833**	**100**	**525,992,822**	**100**	**2,103,999,655**

17. Loans and Borrowings

	2002
Short-term borrowings	
Bank Loans:	
Bank loans (Rubles)	1,025,232
Bank loans (US Dollars)	326,641
Bank loans (Euro)	4,795
Total Bank Loans	1,356,668
Bonds (Rubles)	600,000
Vendor financing (Rubles)	63,695
Promissory Notes (Rubles)	5,236
Total short-term borrowings	**2,025,599**
Long-term borrowings	
Bank Loans:	
Bank loans (Rubles)	322,762
Bank loans (US Dollars)	351,653
Bank loans (Euro)	857,573
Bank loans (other foreign currencies)	25,726
Total Bank Loans	1,557,714
Bonds (Rubles)	600,000
Vendor financing:	
Vendor financing (Rubles)	126,736
Vendor financing (US Dollars)	77,621
Vendor financing (Euro)	530,287
Total vendor financing	734,644
Borrowings from related parties (OAO “Svyazinvest”) (Note 22)	59,081
Restructured connection fees from customers (Rubles)	99,547
Promissory Notes (Rubles)	18,031
Other borrowings (Rubles)	25,632
	3,094,649
Less: Current portion of long-term borrowings	(939,389)
Total long-term borrowings	**2,155,260**

At the end of the year loans and borrowings are represented as follows:

	2002
Short-term borrowings	2,025,599
Long-term borrowings	3,094,649
Total loans and borrowings (Note 23)	**5,120,248**

17. Loans and Borrowings (continued)

As of December 31, 2002 long-term borrowings had the following maturity schedule:

	Borrowings other than vendor financing	Vendor financing	Total
Overdue	95,843	1,399	97,242
2003	458,806	383,341	842,147
2004	1,250,252	166,984	1,417,237
2005	276,568	82,155	358,723
2006	95,455	46,369	141,824
2007 and thereafter	183,080	54,397	237,477
Total	**2,360,005**	**734,644**	**3,094,649**

The most Ruble denominated borrowings are obtained at 19-25% per annum. The most foreign currency denominated borrowings are obtained at 7-9.4% per annum. The weighted average interest rate for Ruble denominated borrowings is 21% per annum for 2002. The weighted average interest rate for foreign currencies denominated borrowings is 9.1% per annum for 2002. The carrying value of non-interest borrowings amounted to 378,861 (416,635 - nominal value), which mostly represents foreign currency denominated vendor financing (Note 23).

Short-term bonds

On October 17, 2001 the Company registered the issue of interest-bearing bonds, 01-series, with a par value of 1,000 Rubles each. Bonds have 5 coupons. Payments against 1st coupon are made on the 95th day from the date of issue; interest per other coupons are payable every 182nd day. Coupon interest rate is determined by the Company's board of directors, and amounted to 21-22% during 2002. The bonds mature on November 18, 2003, i.e. on 732 days.

Long-term bonds

On June 25, 2002 the Company registered the issue of interest-bearing bonds, 02-series, with a par value of RUR 1,000 each. Bonds have 6 coupons. Payments against 1st coupon are made on the 95th day from the date of issue; interest per other coupons are payable every 182nd day. Coupons bear interest: 20% (1st and 2nd coupons); 18% (3rd and 4th coupons); 16% (5th and 6th coupons). The bonds mature on April 21, 2005, i.e. on 1003 days.

18. Finance Lease Obligations

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

	Minimum payments	Present value of payments
Within one year	482,905	399,130
After one year but not more than five years	689,023	390,060
Total minimum lease payments	1,171,928	–
Less amounts representing finance charges	(382,738)	–
Present value of minimum lease payments	789,190	789,190

The most Ruble denominated lease contracts are obtained at 24-64% implicit interest rate on lease. The most US Dollars denominated ease contracts are obtained at 19-62% implicit interest rate on lease. The weighted average implicit interest rate on lease for Ruble denominated lease contracts is 35% per annum for 2002. The weighted average implicit interest rate on lease for US Dollars denominated lease contracts is 36% per annum for 2002.

19. Trade Accounts Payable and Accrued Liabilities

	2002
Accounts payable for capital investments	1,146,240
Advances received from subscribers	403,801
Trade accounts payable	521,783
Salaries and wages payable	150,552
Other	370,214
Total	**2,592,590**

20. Pension Plans and Employee Benefits

In addition to statutory pension benefits, the Company also contributes to defined benefit plans, which cover most of its employees. Non-government pension fund “Telecom-Soyuz”, which is not related to the Company, maintains the plans. The plans provide for payments of retirement benefits starting from statutory retirement age, which are currently 55 for women and 60 for men. The benefits are based on a formula recognizing minimal statutory pension level, length of service, both in the Company and in telecommunications industry as well as final average earnings and position in the Company. The benefits are not vesting and are subject to the employee retiring from the Company on or after the above-mentioned respective ages. The Company makes contributions to the pension funds in the amounts annually determined by the pension fund in order to meet post-retirement benefits. Any deficit between contributions and benefits should be covered by the Company. The Company incurred 119,694 thousand Rubles as contributions to the plan during 2002, which was expensed and recognized as “Wages, salaries, other benefits and payroll taxes” in the accompanying statement of operations for the year ended December 3, 2002.

20. Pension Plans and Employee Benefits (continued)

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

21. Commitments and Contingencies

Insurance Coverage

The Russian insurance industry is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. During 2002, the Company 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 Group’s property or relating to the Group’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.

As of December 31, 2002 approximately 33% of the Company’s carrying value of property and equipment recognized in Russian statutory accounts was insured.

Litigation, Claims and Assessments

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

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

Guarantees Issued

As of December 31, 2002 the Company issued guarantees for the total amount of 765,128 of which 699,045 (631,622 – payable in 2007, 67,422 – 2003) is to secure RTC-Leasing’s debts to Sberbank.

22. Related Parties

OAO “Svyazinvest”

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

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

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

As of December 31, 2002, the Company had loans payable to Svyazinvest for the total amount 59,081 (see Note 17). The loans have the following maturities, interest rates and currencies:

Currency	Interest rate, %	Amount of loans payable	Maturity date
Rubles	16	29,000	2005
Rubles	0	17,500	2003
US Dollars	0	9,323	2004
US Dollars	0	3,258	2003
Total		**59,081**	

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 interconnection agreements with “Rostelecom”. The annual expense associated with traffic carried by “Rostelecom” and terminated outside of the Company’s network is stated as interconnection charges. In 2002 interconnection charges related to “Rostelecom” amounted to 451,489.

22. Related Parties (continued)

RTC-Leasing

RTC-Leasing is a subsidiary of Rostelecom. RTC-Leasing purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment. During 2002 the Company entered into several agreements with ZAO "RTK-Leasing" to lease telecommunication equipment for the total amount of 339,310. The lease obligations are repayable in installments during 2003-2008. The Company's obligations under these finance leases included in Finance lease obligations (see Note 18) in the consolidated balance sheet of the Company and as at December 31, 2002 are presented in the following table:

	Minimum payments	**Present value of payments**
Within one year	167,879	85,303
After one year but not more than five years	412,529	247,770
Total minimum lease payments	580,408	
Less amounts representing finance charges	(247,336)	
Present value of minimum lease payments	333,072	333,072

Interest expense for 2002 amounted 3,058.

These agreements are obtained at 24-44% implicit interest rate on lease. The weighted average implicit interest rate on lease for these agreements is 35% for 2002.

The Company issued guarantee for loan received by RTC-Leasing (see Note 21).

Rusleasingsvyaz

Rusleasingsvyaz is wholly owned by the companies of Svyazinvest' Group. Rusleasingsvyaz purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment. During 2002 the Company entered into several agreements with ZAO "Rusleasingsvyaz" to lease telecommunication equipment for the total amount of 82,876. The lease obligations are repayable in installments during 2003-2007. The Company's obligations under these finance leases included in Finance lease obligations (see Note 18) in the consolidated balance sheet of the Company and as at December 31, 2002 are presented in the following table:

	Minimum payments	**Present value of payments**
Within one year	37,272	27,463
After one year but not more than five years	19,168	16,931
Total minimum lease payments	56,440	
Less amounts representing finance charges	(12,046)	
Present value of minimum lease payments	44,394	44,394

22. Related Parties (continued)

Rusleasingsvyaz (continued)

Interest expense on these agreements in 2002 amounted 8,523.

These agreements are obtained at 30-33% implicit interest rate on lease. The weighted average implicit interest rate on lease for these agreements is 32% for 2002.

Non-Commercial Partnership

Non-commercial partnership "Center for Research of the Problems in Development of Telecommunications" (hereinafter "the Partnership") is an entity related to OAO "Svyazinvest". The Company has an agreement with the Partnership, under which it provides financing for mutually beneficial projects undertaken by the Partnership on behalf of the Company and other Subsidiaries and associates of Svyazinvest. Payments to the Partnership included in other operating expenses in accompanying consolidated income statement for the year ended December 31, 2002 amounted to 39,000.

Part of transaction costs related to the merger (see Note 1) in amount 40,170 were paid to the Partnership and were recognized as "Other expenses" in the accompanying consolidates statement of operations for the year ended December 31, 2002.

Total expenses for Partnership services in 2002 amounted 79,170.

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 9.99% of trade accounts receivable as of December 31, 2002. Amounts outstanding from government subscribers as of December 31, 2002 amounted to 212,098.

Giprosvyaz

In 2002 the Company paid 20,673 for construction of transport network and expansion of current telephone switches. These services were provided by Svyazinvest's subsidiary – Giprosvyaz. At the end of the year accounts payable to Giprosvyaz amount 5,925.

22. Related Parties (continued)

Central Telegraph

Another Svyazinvest's subsidiary, Central Telegraph provides the Company with post services in exchange for telecommunication services. Total expenses occurred are 3,422 and total income received 5,990. Accounts receivable amount 2,408 as of December 31, 2002.

Moscow Telephone Network

The Company has negotiated an agreement to use the network of Moscow Telephone Network, Svyazinvest associate. Total costs under this agreement 7,743 in 2002. Income from telecommunication services provided by the Company is 7,512. At the end of the year accounts payable to Moscow Telephone Network amount 300.

Kostroma Telephone Network

The Company has also negotiated an agreement with Kostroma Telephone Network, Svyazinvest associate. The purpose of this project is operating support of network in Kostroma. Total costs under this agreement 22,237 in 2002. At the end of the year accounts payable to Kostroma Telephone Network amount 18,122.

23. Financial Instruments and Risk Management

Fair Values

The fair value of financial instruments, consisting of cash and cash equivalents, current receivables, and accounts payable, which are included in current assets and liabilities, approximates the carrying value due to their short maturity. The fair market value of Company's long-term borrowings approximates its carrying value as borrowings interest rates either approximate market rates or non-interest borrowings are accounted at fair value. Non-interest bearing obligations primarily relate to vendor financing. The carrying value of non-interest borrowings is amounted to 378,861 (416,635 - nominal value) (Note 17).

Interest Rate Risk

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

	<1 year	**1-5 years**	**>5 years**	**Total**
Fixed rate				
Finance lease obligations	399,130	390,060	–	789,190
Short-term borrowings	1,627,839	–	–	1,627,839
Long-term borrowings	939,389	2,080,521	–	3,019,910
Floating rate				
Bank loan (LIBOR +7%)	397,760	74,739	–	472,499
Total	3,364,118	2,545,320	–	5,909,438
Less: Finance lease obligations	(399,130)	(390,060)	–	(789,190)
Total borrowings	**2,964,988**	**2,155,260**	**–**	**5,120,248**

24. Subsequent Events

Implementation of Oracle

On May 28, 2003, the Board of Directors approved an agreement with ZAO "Otkritiye Technologii 98" to purchase Oracle E-Business Suite for the amount of USD 36,387 thousands (approximately 1,101,416 at the exchanged rate as of the date of financial statements issue).

Purchases of Telecommunications Equipment

On March 25, 2003, the Board of Directors approved two agreements with ZAO "Verysell-Telecom" for the amount of USD 17,497 thousand and EURO 4,729 thousand (approximately 693,213 at the exchange rate as of the date of financial statements issue). Under these agreements ZAO Verysell-Telecom is to deliver Lucent Technologies telecommunication equipment.

Lease Agreements with RTC-Leasing

In May-July 2003, the Board of Directors approved a number of finance lease agreements with RTC-Leasing, a subsidiary of Rostelecom, in total amount of 2,215,865.

Dividends

As discussed in Note 7, the annual general shareholders meeting of OAO "CenterTelecom" held on June 24, 2003 declared dividends for 2002 totaling 260,000.

Tariffs for Telecom Services

During 2003 tariffs for local telephony were increased by approximately 15% to 35% depending on the branch. Tariffs on the other services increased by 5% to 15%.

Bonds

On June 18, 2003, the Board of Directors approved the issue of 2,000,000 documentary bearer non-convertible bonds with 1,000 rubles face value each. Bonds have 6 coupons. Interest payments per each coupon are scheduled for every 183rd day from the first day of the placement. Interest rate is to be set on tender held on the date of issue. The debentures mature 1,095 days after the placement. As at date of issue of consolidated financial statements, no placement was performed.

24. Subsequent Events (continued)

Telecommunications Reforms

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

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

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

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

Currently management cannot precisely predict the outcome of these changes on the Company’s future operations.