

ОАО «РОСТЕЛЕКОМ»

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**AS OF SEPTEMBER 30, 2002 AND
FOR THE 9 MONTH ENDED SEPTEMBER 30, 2002**

OAO Rostelecom
UNAUDITED CONSOLIDATED BALANCE SHEETS

(In millions of Russian Rubles in terms of purchasing power of the Ruble at September 30, 2002, unless otherwise stated)

	Notes	September 30, 2002 (unaudited)	December 31, 2001 ¹ (audited)
ASSETS			
Property, plant and equipment	4	56,867	60,117
Long-term investments	6	3,063	1,188
Deferred tax asset		5	-
Goodwill	7	22	-
Negative goodwill – net of current portion	7	(284)	-
Lease receivables		1,674	648
Non-current assets		61,347	61,953
Inventory		434	637
Accounts receivable	8	8,846	8,184
Investments	9	5,841	3,106
Negative goodwill – current portion	7	(659)	-
Cash and cash equivalents	10	3,920	2,131
Current assets		18,382	14,058
Total assets		79,729	76,011
SHAREHOLDERS' EQUITY, MINORITY INTEREST AND LIABILITIES			
Share capital	11	96	96
Retained earnings		48,941	46,667
Total shareholders' equity		49,037	46,763
Minority interest	12	2,157	1,851
Accounts payable and accrued expenses	13	5,225	5,623
Taxes payable		3,079	1,985
Current portion of interest bearing loans	14	6,548	6,435
Short-term borrowings	15	1,107	1,155
Amounts owed to customers – current portion		798	-
Current liabilities		16,757	15,198
Interest bearing loans – net of current portion	14	544	1,047
Non-current accounts payable		171	363
Deferred tax liability	16	11,024	10,789
Amounts owed to customers – net of current portion		39	-
Non-current liabilities		11,778	12,199
Total liabilities		28,535	27,397
Total shareholders' equity, minority interest and liabilities		79,729	76,011
Commitments and contingencies	24	-	-

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

¹ Comparative numbers as of December 31, 2001 have been restated using the inflation index from December 31, 2001 to September 30, 2002.

OA O Rostelecom
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions of Russian Rubles in terms of purchasing power of the Ruble at September 30, 2002)

	Notes	9 month ended		3 month ended	
		September 30, 2002 (unaudited)	September 30, 2001 (unaudited)	September 30, 2002 (unaudited)	September 30, 2001 (unaudited)
Revenue					
Local operators		10,010	9,569	3,409	3,872
Subscribers		5,620	6,326	1,850	2,148
Foreign operators		3,710	4,730	1,227	1,637
Other		721	779	218	38
Total revenue	17	20,061	21,404	6,704	7,695
Operating expenses					
Wages, salaries, other benefits and payroll taxes		(2,596)	(2,769)	(922)	(1,253)
Depreciation		(5,564)	(5,690)	(1,850)	(1,895)
Charges by network operators - international		(3,940)	(4,946)	(1,375)	(1,627)
Charges by network operators - national		(1,167)	(1,533)	(474)	(670)
Administration and other costs		(2,536)	(2,453)	(720)	(553)
Taxes other than on income		(513)	(1,228)	(160)	(775)
Repairs and maintenance		(374)	(490)	(125)	(142)
Bad debt expense		(189)	(114)	(82)	(114)
Loss on sale of property, plant and equipment		(116)	(327)	(42)	(228)
Total operating expenses		(16,995)	(19,550)	(5,750)	(7,257)
Operating profit		3,066	1,854	954	438
Gain from associates		461	18	142	49
Interest expense		(688)	(1,052)	(244)	(423)
Interest income		323	106	105	63
Income from sale of Sovintel		1,770	-	1,770	-
Other non-operating income /(expense), net	19	15	(74)	(39)	(41)
Foreign exchange gain /(loss), net		(736)	200	4	(237)
Monetary gain /(loss)		92	2,153	(54)	333
Income before tax and minority interest		4,303	3,206	2,638	182
Current tax charge		(1,944)	(2,164)	(1,153)	(760)
Deferred tax benefit	16	659	2,498	356	1,610
Share in income taxes of associates		(8)	(137)	(7)	(68)
Income tax benefit /(expense)		(1,293)	197	(804)	782
Income after taxation		3,010	3,402	1,834	964
Minority interest	12	(348)	(132)	(110)	353
Net income /(loss)		2,662	3,270	1,724	1,317
Earnings per share – basic and diluted, Rubles		3.65	4.49	2.36	1.81

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

OA O Rostelecom
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions of Russian Rubles in terms of purchasing power of the Ruble at September 30, 2002)

	9 month ended	
	September 30, 2002 (unaudited)	September 30, 2001 (unaudited)
Cash flows from operating activities		
Net income before taxation and minority interests	4,303	3,206
<i>Adjustments to reconcile income to cash generated from operations:</i>		
Depreciation	5,564	5,690
Bad debt expense	189	114
Share in income of associates	(461)	(18)
Net interest loss	365	946
Gain on sale of Sovintel	(1,770)	-
Other gain /loss	(77)	74
Loss on disposal of property, plant, equipment and other assets	116	327
Foreign exchange (gain)/loss	736	(200)
Gain on net monetary position	(92)	(2,153)
Increase in accounts receivable	(1,354)	(1,548)
Increase in payables and accruals	471	240
Decrease in inventories	155	45
Cash generated from operations	8,145	6,723
Interest paid	(706)	(851)
Interest received	308	54
Income tax paid	(1,570)	(2,128)
Net cash provided by operating activities	6,177	3,798
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,167)	(1,174)
Proceeds from sale of property, plant and equipment	27	12
Increase in lease receivable	(1,087)	(153)
Acquisition of subsidiaries	(1,176)	-
Cash acquired with subsidiaries	94	-
Proceeds from sale of Sovintel	316	-
Purchase of investments	(372)	(1,145)
Other investing activity	447	838
Net cash used in investing activities	(2,918)	(1,622)
Cash flows from financing activities		
Drawdown of interest bearing loans	3,208	618
Repayment of interest bearing loans	(4,144)	(2,092)
Other financing activity	16	-
Dividends paid	(273)	-
Net cash used in financing activities	(1,193)	(1,474)
Effect of exchange rate changes on cash and cash equivalents	25	(4)
Net increase/(decrease) in cash and cash equivalents	2,091	698
Monetary effects on cash	(302)	(7)
Cash and cash equivalents at beginning of period	2,131	1,513
Cash and cash equivalents at the end of period	3,920	2,204

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

ОАО Rostelecom**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****(In millions of Russian Rubles in terms of purchasing power of the Ruble at September 30, 2002)**

	Note	Share capital	Retained earnings	Total
Balance as at December 31, 2000 (audited)		96	42,504	42,600
Dividends for the year 2000			(258)	(258)
Net income for the period			3,270	3,270
Balance at September 30, 2001 (unaudited)		96	45,516	45,612
Balance at December 31, 2001 (audited)		96	46,667	46,763
Dividends for the year 2001	11		(388)	(388)
Net income for the period			2,662	2,662
Balance at September 30, 2002 (unaudited)		96	48,941	49,037

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

ОАО Rostelecom

Notes to unaudited consolidated Financial Statements for the 9 month ended September 30, 2002
(In millions of Russian Rubles in terms of purchasing power of the Ruble as of September 30, 2002)

1. REPORTING ENTITY

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

These consolidated financial statements incorporate the results of the Company and its subsidiaries and associates, as detailed in Notes 5 and 6.

Rostelecom was established as an open joint stock company on September 23, 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia number 1507-r, dated August 27, 1993. As of September 30, 2002 the Government of the Russian Federation controlled indirectly 50.67% of the voting share capital of the Company, by virtue of its 75% less one share direct holding in OAO Svyazinvest (“Svyazinvest”), the parent company of Rostelecom (see also Note 23).

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standard, IAS 34, “Interim Financial Reporting”, as published by the International Accounting Standards Board.

Some of the notes to the financial statements were reduced or not included into these financial statements according to the IAS 34 “Interim Financial Reporting”. The Management of the Group believes that the Notes to the financial statements are sufficient to exclude the misleading of users of these financial statements. To the opinion of the Management of the Group the business is not subject to material seasonal fluctuations, which require disclosure in these consolidated financial statements.

The Financial Statements for the submitted interim period should not be necessarily indicative for financial results for any later interim periods or for the whole year.

The consolidated financial statements have been prepared using the same accounting policies as for the period ended December 31, 2001.

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

Corresponding figures as of December 31, 2001 and December 31, 2000, and for 9 and 3 months ended September 30, 2001 have been restated by applying the rates of inflation between that date and September 30, 2002.

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Notes to unaudited consolidated Financial Statements for the 9 month ended September 30, 2002
(In millions of Russian Rubles in terms of purchasing power of the Ruble as of September 30, 2002)

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and operating costs during the reporting period. The most significant estimates relate to the realizability and depreciable lives of property, plant and equipment, allowance for doubtful accounts, valuation of investments and deferred taxation. Actual results could differ from these estimates.

3. OPERATING ENVIRONMENT OF THE COMPANY

General

In Russia substantial political, economic and social changes are undergoing. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy.

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

Currency exchange and control

Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Russia. The following table summarizes the exchange rate of the Ruble to 1 US Dollar for the years ended December 31, 2001, 2000 and 1999, as established by the Central Bank of Russia.

At December 31	Exchange rate
2001	30.14
2000	28.16
1999	27.00

The exchange rate of the Ruble to 1 US Dollar as of September 30, 2002 was 31.68, as established by the Central Bank of Russia.

The Group's principal foreign currency exchange rate risks is the exposure to currency exchange losses and the ability to repay its foreign currency denominated obligations.

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

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Notes to unaudited consolidated Financial Statements for the 9 month ended September 30, 2002
(In millions of Russian Rubles in terms of purchasing power of the Ruble as of September 30, 2002)

Inflation

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

For the years ended December 31	Annual inflation
2001	18.8%
2000	20.2%
1999	36.5%

For the period from January 1, 2002 to September 30, 2002 the rate of inflation was 10.4%.

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

Taxation

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), turnover based taxes, and payroll (social) taxes, together with others. Present Russian laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies. Therefore, the government's interpretation and implementation of these regulations is often contradictory. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters), are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

In recent years, the Russian government has initiated revisions of the Russian tax system. Effective January 1, 1999, the first part of the Tax Code was enacted. Effective January 1, 2001, the second part of the Tax Code was enacted. The new tax system is generally intended to reduce the number of taxes and, thus, the overall tax burden on businesses, and to simplify the tax laws.

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Notes to unaudited consolidated Financial Statements for the 9 month ended September 30, 2002
(In millions of Russian Rubles in terms of purchasing power of the Ruble as of September 30, 2002)

4. PROPERTY, PLANT AND EQUIPMENT

	Buildings and Site services	Cable and trans- mission devices	Other	Construction in progress	Total
Cost or Valuation					
At December 31, 2001 (audited)	23,306	122,627	21,357	3,694	170,984
Additions	-	-	-	1,279	1,279
Addition as part of acquisition of subsidiaries	-	1,670	111	44	1,825
Disposals	(142)	(719)	(257)	-	(1,118)
Transfers	65	840	610	(1,515)	-
At September 30, 2002 (unaudited)	23,229	124,418	21,821	3,502	172,970
Accumulated Depreciation					
At December 31, 2001 (audited)	14,951	83,763	12,153	-	110,867
Depreciation expense	391	3,483	1,690	-	5,564
Addition as part of acquisition of subsidiaries	-	605	23	-	689
Disposals	(107)	(678)	(171)	-	(956)
At September 30, 2002	15,235	87,173	13,695	-	116,103
Net book value at December 31, 2001 (audited)	8,355	38,864	9,204	3,694	60,117
Net book value at September 30, 2002 (unaudited)	7,994	37,245	8,126	3,502	56,867

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Notes to unaudited consolidated Financial Statements for the 9 month ended September 30, 2002
(In millions of Russian Rubles in terms of purchasing power of the Ruble as of September 30, 2002)

5. SUBSIDIARIES

The accompanying consolidated financial statements include the financial statements of Rostelecom and its subsidiaries:

	Share of the Group (share of subsidiaries is included in full)
OAO "RTC-Leasing" ("RTC-Leasing")	43%
RosTelecomLeasing S.A., Switzerland ("RTCL S.A.")	100%
RTDC Holdings, Inc., USA ("RTDC")	95%
ZAO "Russian Industrial Bank" ("RIB")	100%
ZAO "Westelcom" ("Westelcom")	100%
OAO "RTComm.RU" ("RTComm")	65%

The principal counterparty as lessee to finance leases entered into by RTC-Leasing is Rostelecom. Rostelecom performs lease through RTC-Leasing to use the advantages of taxation of lease operations. Finance lease transactions between RTC-Leasing and Rostelecom have been eliminated in consolidation.

In February 2002, RTC-Leasing increased its share capital by issuing 3,964,714 ordinary shares with par value of 10 rubles each. Rostelecom has acquired for par value the proportionate share in additional issue to keep its own share on the level of 27%. 16% of the shares have been acquired for par value by RIB, which then has been acquired by RTC-Leasing.

In the opinion of the directors of both Rostelecom and RTC-Leasing the Company continues to exercise control of the management, policies and day to day operations of RTC-Leasing since it has the ability to control the composition of the Board of Directors of RTC-Leasing. Furthermore, based on the above, for financial accounting purposes management considers RTC-Leasing the special purpose vehicle. The Company continues to consolidate the results and financial position of RTC-Leasing.

RTCL S.A. is a 100% subsidiary of RTC-Leasing established in 2000 under legislation of Switzerland. The company was established to develop leasing activities of RTC-Leasing, to communicate with foreign vendors and for financial activity. The results of RTCL S.A. activity are consolidated from January 1, 2002, since prior results and net assets of RTCL S.A. were not material.

In April 2002 RTCL S.A. has acquired for 33 mln. US\$ (1,046 at the exchange rate at September 30, 2002) 95% of the shares of RTDC, the telecommunication holding, registered in the state of Delaware, USA. RTDC has significant investments into several Russian cellular telecommunication operators, which are reflected in the financial statements as investments in associates (refer to Note 6) or available-for-sale investments (refer to Note 9), depending on management intentions. The cost of acquisition has been fully paid in cash.

At the date of acquisition RTDC held 50% of Westelcom shares. Earlier Rostelecom held 50% of Westelcom shares and the company was treated as an associated company as the Group did not control over the finance, operation and economic activity of Westelcom. From April, 2002 the Group has obtained the control over Westelcom, and its results from April, 2002 to September, 2002 and the financial position as of September 30, 2002 were included into these consolidated financial statements.

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Notes to unaudited consolidated Financial Statements for the 9 month ended September 30, 2002
(In millions of Russian Rubles in terms of purchasing power of the Ruble as of September 30, 2002)

In March 2002, RTC-Leasing has acquired 80% of RIB shares for 88, fully paid in cash. In July 2002, RTC-Leasing has acquired the remaining 20% of RIB shares for 10. The purpose of acquisition was to diversify activity and to expand the volume and the range of lease services provided by RTC-Leasing.

In 2001, RTComm has commenced to provide internet services. 25% of the RTComm shares are held by Rostelecom, 40% of the RTComm shares are held by RTC-Leasing. The results of RTComm's activity are consolidated from January 1, 2002, since prior results and net assets of RTComm were not material.

6. LONG-TERM INVESTMENTS

Long-term investments as of indicated dates comprised the following:

			% of shares held by the Group as of September 30, 2002	Effective shareholding of the Group, as of		Carrying amount	
				September 30, 2002	December 31, 2001	September 30, 2002 (unaudited)	December 31, 2001 (audited)
<u>Investments in associates, including</u>						2,343	1,188
Westelcom	Telecommunication services	Russia	-	-	50	-	593
	International						
Telmos	telecommunications	Russia	20	20	20	226	191
Moscow Cellular Communications	Mobile telecommunications	Russia	45.5	33	23.5	192	99
	Telecommunication services						
Golden Telecom	Mobile	USA	15	15	-	1,655	-
Delta Telecom	telecommunications Satellite	Russia	42.5	17.4	-	169	-
GlobalTel	telecommunications	Russia	51	51	51	-	-
Other	Various	Russia		Various		101	305
<u>Investments in other companies, including</u>						244	-
	Telecommunication services						
Globus Telecom	services	Russia	15.3	6.6	-	111	-
Electrosvyaz of Orenburg region	Telecommunication services	Russia	16.9	7.3	-	133	-
Long-term loans and credits to the companies						269	-
Long-term notes						136	-
Other						71	-
Total						3,063	1,188

The carrying amount of investments in associates in these financial statements is equal to the Group's share of underlying equity in the net assets of investee companies, which all have a December 31 balance sheet date.

The Group owns 45.5% of the shares of Moscow Cellular Communications ("MCC"), 23.5% of which are held by Rostelecom and 22% are held by RTDC. Fair value of Group's investments in MCC as of December 31, 2001 was determined as 99. During the year the Group did not revise the fair value of investments in MCC continuing to account for the Group share in financial results of MCC. The value of the MCC shares held by RTDC was estimated using the same principles as those used for valuation of Rostelecom share as of December 31, 2001.

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Notes to unaudited consolidated Financial Statements for the 9 month ended September 30, 2002
(In millions of Russian Rubles in terms of purchasing power of the Ruble as of September 30, 2002)

7. GOODWILL AND NEGATIVE GOODWILL

Goodwill arose with regard to acquisition of RIB and equals to the excess of the contribution paid over the fair value of identifiable net assets acquired.

Negative goodwill arose with regard to acquisition of RTDC and equals to the excess of the fair value of identifiable net assets acquired over the contribution paid.

Goodwill and negative goodwill are amortized over two years period. Part of negative goodwill attributable to available for sale investments will be amortized in full upon sale of those investments. This part of negative goodwill was identified proportionately to the share of those investments in the total value of acquired non-monetary assets of RTDC and is included into current portion of negative goodwill in the amount of 563. Management of the Group believes that such method of amortization of negative goodwill is the most relevant considering the nature of future transactions with the acquired non-monetary assets (refer to Note 9).

8. ACCOUNTS RECEIVABLE

Accounts receivable as of indicated dates comprised the following:

	September 30, 2002 (unaudited)	December 31, 2001 (audited)
Trade accounts receivable for telecommunication services	8,379	7,996
Less: allowance for doubtful accounts	(1,777)	(1,750)
Trade accounts receivable, net	6,602	6,246
Prepayments	617	540
Prepaid taxes	443	485
Other accounts receivable	1,184	913
Total accounts receivable	8,846	8,184

Trade accounts receivable, net of allowance for doubtful accounts, include amounts totaling 1,662 (2001: 1,522) due from foreign telecommunications operators which are denominated in foreign currencies, principally represented by Special Drawing Rights ("SDR") and US dollars, and amounts totaling 2,213 (2001: 2,960) due from local telephone operators. As of September 30, 2002 the carrying value of trade accounts receivable is equal to their fair value.

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Notes to unaudited consolidated Financial Statements for the 9 month ended September 30, 2002
(In millions of Russian Rubles in terms of purchasing power of the Ruble as of September 30, 2002)

9. INVESTMENTS

Fair value of short-term investments as of indicated dates is included the following:

	September 30, 2002 (unaudited)	December 31, 2001 (audited)
Golden Telecom notes receivable	1,457	-
Other notes receivable	1,622	1,263
Loans to credit institutions	440	-
Loans to customers	186	-
VEB bonds (US\$ denominated)	162	165
Investments held for sale	1,624	1,532
Sovintel	-	1,432
Giprosvyaz	-	100
Baikalwestcom	348	-
Dontelecom	237	-
Nizhegorodskaya Cellular Communications	633	-
Yeniseytelecom	364	-
Uralwestcom	42	-
Other	350	146
Total	5,841	3,106

Investments held for sale are stated at fair value, which equals to the expected sale price based on the management estimates. Management believes that these investments will be sold during 2003 for contribution not less than included into these financial statements.

Investment into Sovintel as of December 31, 2001 represents 50% share of the Group in net assets of Sovintel.

In September 2002 the sale of 50% of Sovintel to the Golden Telecom Inc., USA has been completed. The Group has received in exchange cash of US\$ 10 million (317 at the exchange rate as of September 30, 2002), note for US\$ 46 million (1,457 by the exchange rate as of September 30, 2002) receivable within 90 days and 15% of shares of Golden Telecom, which are included to investments in associates. The gain on the transaction of 1,770 is included in non-operating income. In November 2002 two representatives of Rostelecom have been elected into the Board of Directors of Golden Telecom.

Management believes that the Group has the ability to exercise significant influence on the financial and operating activities of Golden Telecom, through representation in its Board of Directors. Based on the above, investments into Golden Telecom are accounted for by using the equity method of accounting (refer to Note 5).

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Notes to unaudited consolidated Financial Statements for the 9 month ended September 30, 2002
(In millions of Russian Rubles in terms of purchasing power of the Ruble as of September 30, 2002)

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of indicated dates include the following:

	September 30, 2002 (unaudited)	December 31, 2001 (audited)
Cash on hand	8	2
Cash at bank – Rubles	1,962	862
Cash at bank – Foreign currencies	416	396
Short term deposits	135	858
Cash with the Central bank of Russia	1,392	-
Other cash	7	13
Total cash and cash equivalents	3,920	2,131

11. SHAREHOLDERS' EQUITY

Share capital

The authorized share capital of the Company is 1,634,026,541 ordinary shares of Rbl 0.0025 par value and 242,836,981 non-redeemable preferred shares of Rbl 0.0025 par value. The Board of Directors of Rostelecom is authorized under its Charter to issue additional ordinary shares up to the total of the authorized share capital without further shareholder approval.

As of September 30, 2002 and December 31, 2001 the issued and outstanding share capital was as follows:

	Number of Shares	Nominal Value	Indexed Value
Ordinary Shares, Rbl 0.0025 par value	728,696,320	1.821	72
Preferred Shares, Rbl 0.0025 par value	242,831,469	0.608	24
Total	971,527,789	2.429	96

The share capital of the Company on its incorporation has been indexed, to account for the effects of inflation from that date. The share capital in the Russian statutory accounts at September 30, 2002 and December 31, 2001 amounted to 2,428,819 Rubles.

Ordinary shares carry voting rights with no guarantee of dividends.

Distributions

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

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Notes to unaudited consolidated Financial Statements for the 9 month ended September 30, 2002
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Preferred shares carry guaranteed dividends amounting to the higher of 10% of the net income after taxation of the Company as disclosed in the Russian statutory accounts and the dividends paid on ordinary shares. Owners of preferred shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay part only) dividends on preferred shares has been taken.

Treasury Shares

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

Dividends

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

Dividends – preferred shares	228
Dividend – ordinary shares	160
	388
	Rbl
Dividend per preferred share	0.9195237
Dividend per ordinary share	0.2144961

The dividends for the year ended December 31, 2001 approved at the annual shareholders meeting held on June 1, 2002 are reflected in the financial statements for the period ended September 30, 2002 as distribution of retained earnings.

12. MINORITY INTEREST

	9 months ended September 30, 2002
At beginning of year (audited)	1,851
Acquisition of subsidiaries	235
Effect of treasury shares purchased with RIB	(173)
Share of net income of subsidiaries	348
Dividends on preferred shares of RTC-Leasing	(104)
At the end of period (unaudited)	2,157

In 2001 the Group has estimated the fair value of preferred shares of RTC-Leasing issued to individuals which related parties to the Group based on future cash flows from operating activity of RTC-Leasing and future proposed dividends on preferred shares. The value of these shares was included in minority interest liability in amount of 267. During 9 months ended September 30, 2002 the dividends in the amount of 104 were paid to the preferred shareholders of RTC-Leasing.

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13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as of indicated dates were the following:

	September 30, 2002 (unaudited)	December 31, 2002 (audited)
Trade accounts payable	2,845	3,227
Accrued expenses and other accounts payable	1,987	2,090
Compensation related accruals	94	229
Notes payable	-	55
Dividends payable	299	22
	5,225	5,623

Trade accounts payable as of September 30, 2002 include amounts totaling to 2,133 which are denominated in foreign currencies, principally represented by Special Drawing Rights and US dollars (2001: 2,107).

14. INTEREST BEARING LOANS

The interest bearing loans as of indicated dates were the following:

	September 30, 2002 (unaudited)	December 31, 2001 (audited)
Current portion of interest bearing loans	6,548	6,435
Between one to two years	544	764
Between two to three years	-	283
Total long-term loans	544	1,047
Total interest bearing loans	7,092	7,482

Interest bearing loans, which are mostly denominated in foreign currency are summarized as follows:

	September 30, 2002 (unaudited)	December 31, 2001 (audited)
US Dollars (US\$)	2,808	2,094
EURO	1,060	1,082
Japanese Yen (JPY)	3,044	3,034
Total in foreign currency	6,912	6,210
Russian Ruble denominated loans	180	1,272
Total interest bearing loans	7,092	7,482

15. SHORT-TERM BORROWINGS

In October 2001, RTC-Leasing issued 1,000,000 bonds with par value of 1,000 Rubles each, payable on October 25, 2002 and bearing interest of 23% per annum. As of September 30, 2002, the bonds together with accrued interest were included in short-term borrowings in the accompanying consolidated balance sheet in amount of 1,100 (2001: 1,155).

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16. DEFERRED TAX LIABILITY

The components of net deferred tax assets and liabilities at September 30, 2002, and the movement during 9 months of 2002, were as follows:

	December 31, 2001 (audited)	Movement during the period	September 30, 2002 (unaudited)
<i>Tax effects of future tax deductible items (temporary differences):</i>			
Accounts payable	856	(538)	318
Gross deferred tax asset	856	(538)	318
<i>Tax effects of future taxable items (temporary differences):</i>			
Property, plant and equipment	8,270	114	8,384
Accounts receivable	859	(405)	454
Investment valuation difference	416	540	956
Finance leasing arrangements	1,866	(570)	1,296
Other	234	18	252
Gross deferred tax liability	11,645	(303)	11,342
Net deferred tax liability	10,789	235	11,024

Differences between IFRS and statutory accounting and taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred income tax assets and deferred income tax liabilities relate to the income taxes levied by the same fiscal authority on the same taxable entity.

The following factors influence the change of deferred tax liability:

Deferred tax benefit	(659)
Deferred tax with acquired subsidiaries	894
Total change in deferred taxes	235

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17. REVENUE

Revenue comprised the following:

	9 month ended		3 month ended	
	September 30, 2002 (unaudited)	September 30, 2001 (unaudited)	September 30, 2002 (unaudited)	September 30, 2001 (unaudited)
Revenue from local operators				
Telephone – international	3,618	3,789	1,211	1,464
Telephone – national	4,131	3,098	1,414	1,218
Other income from local operators	2,261	2,682	784	1,190
	10,010	9,569	3,409	3,872
Revenue from subscribers				
Telephone – international	2,551	3,667	828	1,208
Telephone – national	2,478	2,659	825	940
Internet service	591	-	197	-
	5,620	6,326	1,850	2,148
Revenue from foreign operators				
Telephone	3,164	3,933	1,048	1,328
Telex, telegraph and other	364	371	121	174
Leased lines	182	426	58	135
	3,710	4,730	1,227	1,637
Other revenue	721	779	218	38
Total Revenue	20,061	21,404	6,704	7,695

18. SEGMENT INFORMATION

The Group has operated in the following business segments during the 9 month of 2002:

Segment	Revenue (unaudited)	Net income (unaudited)
Telecommunication services	19,953	2,655
Finance lease	53	10
Banking services	32	7
Consulting services	23	(10)
Total	20,061	2,662

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

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19. OTHER NON-OPERATING INCOME /(EXPENSE), NET

Other non-operating income and expenses consisted of the following for 9 months ended September 30, 2001 and September 30, 2002:

	September 30, 2002 (unaudited)	September 30, 2001 (unaudited)
Unrealized gain on available-for-sale investments	18	36
Other non-operating gain	(3)	(100)
Total	15	(74)

20. EMPLOYEES

The average numbers of employees was 30,737 as of September 30, 2002 (2001: 35,410). In prior years the Group has agreed with the Central Committee of the Telecommunications Trade Union of Russia to make payments on retirement to employees with fifteen or more years service amounting to no less than 2 months' salary as at the date of retirement. Further, the Company, at its discretion, makes payments to employees with less than 15 years service, on retirement, or who otherwise leave the employment with the Group. An accrual of 69 (2001: 143), representing the net present value of the future benefits the Group expects to pay, has been included in compensation related accruals as of September 30, 2002.

21. EARNINGS PER SHARE

The calculation of basic and diluted earnings per ordinary share is based on net profit for the period attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year of 728,696,320.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

For monetary assets, the carrying amounts approximate their fair value. Fair value of balance sheet items denominated in foreign currencies approximates their ruble equivalent translated at appropriate period end exchange rates.

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

23. RELATED PARTY TRANSACTIONS

(a) The Government and OA O Svyazinvest as shareholder

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

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

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

The Government may by law require the Group to provide services to the Government in connection with national security and the detection of crime.

(c) Transactions with the Svyazinvest Group

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

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

(d) Transactions with the Government

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

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The revenues arising from the services provided to the Government of Russia and to the Group Svyazinvest were as follows:

	September 30, 2002 (unaudited)	September 30, 2001 (unaudited)
Revenues	6,976	5,823
Expenses related to operators of the Svyazinvest Group	99	104

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

	September 30, 2002 (unaudited)	December 31, 2001 (unaudited)
Accounts receivable, net	1,968	848

There are no payables due to such organizations.

(e) Transactions with Investees

The Group also transacts a wide variety of business with entities and companies in which it has investments, including associates over which it exerts significant interest. Such business includes telecommunications services, banking and finance lease services. In the opinion of the Directors, such business is conducted at arms' length terms and at rates prevailing in the open

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24. CONTINGENCIES

a) Legal proceedings

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

b) Licenses

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

c) Restructuring

During the negotiations regarding inclusion of Russia into the World Trade Organization (WTO) the Government have confirmed that the Group's status of the monopoly provider of international and domestic long distance telecommunication services is not expected to change at least for 6 years after inclusion of Russia into WTO.

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25. SUBSEQUENT EVENTS

In October 2002, Rostelecom has acquired for US\$ 15 million (475 at the exchange rate at September 30, 2002) 50% of Westelcom shares from RTDC. After completion of the transaction the share of the Company in Westelcom became 100%.

In October 2002, RTC-Leasing settled bonds and paid the second coupon in full amount.

In October 2002, RTCL S.A. has concluded an agreement with the International Finance Corporation to purchase the remaining 5,1% of RTDC shares for US\$ 1 million (32 at the exchange rate at September 30, 2002).

In November 2002, RTC-Leasing has issued 1,500,000 interest bearing bonds with par value of 1,000 Rubles each and sold them at par value. The bonds mature in November 2004 with earlier redemption to be offered in November 2003. Interest is accrued and paid semi-annually at 18% and 16% per annum during the first and the second years of placement, respectively.

In December 2002, the Golden Telecom group has settled the promissory note to the Group of US\$ 46 million in full amount.