



**Materials for the 2002 Annual General Meeting of Shareholders
Of Open Joint Stock Company
Long-Distance and International Telecommunications "ROSTELECOM"**

15 June 2003

Notice of Convening the Annual General Meeting of Rostelecom Shareholders

Dear Shareholder,

We hereby give notice that pursuant to Clause 15 of the Company Charter and Article 65 of Federal Law No. 208–FZ dated on 26 December 1995 “On Joint-Stock Companies” (as amended on 13 June 1996, 24 May 1999, 7 August 2001, 21 March 2002 and 31 October 2002) and a resolution of the Board of Directors dated **15 April 2003** Rostelecom (hereinafter the Company) of 5 Delegatskaya Street, Moscow 127091, has decided to convene and conduct the Annual General Meeting of the Company’s Shareholders on **15 June 2003** at the following address: **Pavilion No. 38, The Business Center “Five Seas”, All-Russian Exhibition Center (VVTs) (formerly VDNKh), Prospekt Mira, Moscow.**

Form of conducting the Meeting: the joint attendance of shareholders to discuss the items on the agenda and to decide those matters set down for voting, with delivery of proxy cards prior to the convening of the Meeting.

Start of Registration: 15 June 2003 at 8.00 a.m. at the Meeting venue.

Start of the Meeting: 10.00 a.m. on the day of convening the Meeting.

You should have with you:

for individuals – passport or other document providing proof of identity;

for representatives of legal entities or proxies of individuals – a document which grants authority to act for the party concerned.

Transport: by metro to VDNKh station, then walk to the area of the VVTs (All Russian Exhibition Centre), Pavilion No. 38 (The Business Center “Five Seas”).

The list of persons with the right to attend the Meeting was compiled in accordance with data on the Company’s Shareholders’ register **at 28 April 2003** (the record date).

AGENDA

1. Approval of the Company's annual report, annual financial statements*, including profit and loss statement of the Company, and distribution of profits and losses upon the results of the reporting fiscal year (2002).
2. Determination of the amount of dividends for 2002, format and the period of dividend payments with respect to shares of each category.
3. Election of the Board of Directors of the Company.
4. Election of the Auditing Commission of the Company.
5. Approval of the external auditor of the Company for 2003 year.
6. Approval of the restated Charter of the Company.
7. Approval of the restated Regulations on the General Meeting of Shareholders of OJSC Rostelecom.
8. Amendments and additions to the Regulations on the Board of Directors of OJSC Rostelecom.
9. Amendments and additions to the Regulations on the Management Board of OJSC Rostelecom.
10. Termination of participation of the Company in the Association of Telecommunication Companies of the Volga Region.
11. Termination of participation of the Company in the Association of Telecommunication Companies of Siberia and the Far East.
12. Termination of participation of the Company in the Association of Telecommunications Association of the Central Chernozem Region.
13. Termination of participation of the Company in the Association of Telecommunication Operators of the North Caucasus.

* according to RAS

The right to vote on all items at the Meeting is granted to Rostelecom shareholders who own ordinary shares registered in the Company's Shareholders' register **at 28 April 2003** (the record date).

A shareholder may attend the Meeting in person or by an authorized representative. A power of attorney for an authorized representative should be drawn up in accordance with Article 57.1 of Federal Law No. 208 –FZ dated 26 December 1995 “On Joint-Stock Companies” (as amended on 13 June 1996, 24 May 1999, 7 August 2001, 21 March 2002 and 31 October 2002).

All parties included in the list of those entitled to vote at the Meeting will be sent a notice by recorded delivery of the date for the Meeting, together with a proxy card.

Completed proxy cards may be returned by shareholders prior to the date of the meeting to **CJSC Registrar-Svyaz at the following address: 107078 Moscow, Ul. Kalanchevskaya Street, 15a, P.O. Box 45, for CJSC Registrar-Svyaz.**

Proxy cards received at the above address up to 12 June 2003 (inclusive) will be counted in the vote.

Shareholders registered for participation in the Meeting are entitled to vote using proxy cards during the Meeting itself if their proxy cards were not received or were received after the closing date.

In accordance with the third paragraph of Article 52.3 of Federal Law No. 208-FZ dated 26 December 1995 “On Joint-Stock Companies” (as amended on 13 June 1996, 24 May 1999, 7 August 2001, 21 March 2002 and 31 October 2002) in making preparations for the Meeting the information and materials set out in the following list is to be made available 30 days before the Meeting is convened to all shareholders with the right to participate in the Meeting so that they may familiarize themselves with it at the premises of Rostelecom or its branches on contacting the appropriate authorized representative:

- a notice convening the meeting;
- information on the Agenda items;
- Company's Annual Report for 2002;
- Company's Annual Financial Statements for 2002, including the profit and loss statement;
- Report of the Auditing Commission on their examination of the Company accounts for 2002;
- Report by Ernst & Young Vneshaudit on the Company's accounts for 2002;
- Details of candidates proposed for election to the Board of Directors;
- Details of candidates proposed for election to the Auditing Commission;
- Details of proposal of the external auditor;
- Draft Company Charter in a restated version;
- Draft Regulations on the General Shareholders' Meetings of OJSC Rostelecom in a restated version;
- Draft amendments to the Regulations on the Board of Directors of OJSC Rostelecom;
- Draft amendments to the Regulations on the Management Board Directors of OJSC Rostelecom;
- Draft resolutions of the AGM.

At the request of a shareholder entitled to attend the Meeting, the Company will provide copies of the documents listed above within five days of its receipt of such request. For this service the Company may only charge the actual cost of making the copies. A shareholder may also ask that such copy documents be sent out by post, always provided that they pay the postal charges incurred.

In accordance with Clause 35.3 of the Company Charter these documents will be provided in response to a request containing the full name and passport details of the person making the request (for a legal entity – the name and address and state registration details), individual account number in the Company's Shareholders' register, and the number and category and/or type of shares held, together with the name of the document sought.

Shareholders may also familiarize themselves with the materials for the Meeting on the Company's website at www.rt.ru in the Shareholder and Investor Center located in the Corporate Management section, under the General Shareholders' Meeting subsection.

The Board of Directors

**Addresses of Rostelecom Authorized Representatives
on matters pertaining to convening the Shareholders' AGM**

| Name of branch | Telephone Number | Telefacsimile, e-mail | Postal address |
|--|--------------------------------------|--|--|
| North-Western | +7 812 164 14 53 | +7 812 164 09 03 tcms3@nmc.rospac.ru office@tcms3.rt.ru | 191002, St Petersburg, Ul. Dostoyevskogo, 15 |
| Volga Region | + 7 8462 78 02 29 | +7 8462 78 01 05 +7 8462 42 30 05 tpo5@samara.rospac.ru | 443001, Samara, Ul. Sadovaya,292 |
| Siberian | +7 3832 28 93 07 | +7 3832 28 93 98 suhorukih@tcms8.ru | 630082, Novosibirsk, Ul. Vtoraya Soyuza Molodyozhi, 33 |
| Southern | +7 8632 64 54 19 +7 8632 64 84 53 | +7 8632 64 07 92 uf9@nmc.rospac.ru | 344006, Rostov-on-Don, Ul. Pushkinskaya, 152 |
| Urals | +7 3432 49 63 09 | +7 3432 74 66 41 nmg@tcms14.rt.ru | 620041, Yekaterinburg, Per. Asbestovskii, 4a |
| Far Eastern | +7 4212 30 67 87 | +7 4212 30 57 09 zhurikhina@khhb.rt.ru | 680000, Khabarovsk, Ul. Pushkina, 23 |
| Central | +7 095 192 11 56 | +7 095 192 11 56 cf22@nmc.rospac.ru | 123298, Moscow, Ul. Tretya Khoroshevskaya 17, Korpus 1 |
| MMT | +7 095 727 00 81 | +7 095 246-01-63 shutko@mmtel.ru | 109172, Moscow, Ul. Goncharnaya 30 |
| GTsUMS | +7 095 215 65 97 | +7 095 216 64 32 gcums@nmc.rospac.ru | 127427, Moscow, Ul. Dubovaya Roshcha, 25 |
| Rostelecom's Professional Education Centre | +7 095 992 05 01 | +7 095 996 86 33 upcrt@nmc.rospac.ru | 143380, Moscow Oblast, Naro-Fominsk Region, Bekasovo Village |
| Rostelecom's Headquarters Office | +7 095 973 99 21 | +7 095 787 28 50 oracb@hq.rt.ru | 125047, Moscow, Ul. Pervaya Tverskaya-Yamskaya 14; Ul. Delegatskaya, 5 |

Contact details for Rostelecom's register holder:

CJSC Registrator-Svyaz

Postal address: 107078, Moscow, Ul. Kalanchevskaya 15a, P. O. Box 45 (for CJSC Registrator-Svyaz)

Telephone: +7 095 933-4221

Facsimile: +7 095 933 42 21

E-mail: regsw@asvt.ru

Information on Agenda Items for the 2002 Annual General Meeting of Shareholders

Item 1: Approval of the Company's annual report, annual financial statements*, including profit and loss statement of the Company, and distribution of profits and losses upon the results of the reporting fiscal year (2002).

* according to RAS

The Annual Report is provided in Appendix No. 1, the report of Ernst & Young Vneshaudit as external auditor is in Appendix No. 2, and the report of the Auditing Commission on the Company's finances for 2002, together with its report on the accuracy of the information contained in the Annual Report are in Appendix No. 3.

The main financial indicators for the 2002 accounts are given in Appendix No. 4.

Item 2: Determination of the amount of dividends for 2002, format and the period of dividend payments with respect to shares of each category.

The Board of Directors recommends payment of the following dividends for 2002:

- RUR **1.27472** per preferred share between 1 July 2003 and 31 December 2003. The total amount of dividends to be paid to holders of preferred shares will amount to **10.0%** of 2002 RAS net profit;
- RUR **0.54347** per ordinary share between 1 July 2003 and 31 December 2003. The total amount of dividends to be paid to holders of ordinary shares will amount to approximately **12.8%** of 2002 RAS net profit.

Pursuant to applicable Russian law and the Company Charter the right to receive the dividends for 2002 is granted to those shareholders who are entered in the shareholders' register **at 28 April 2003**, that is, at the date of compiling the list of persons entitled to attend the AGM for 2002 (the record date).

The procedure for payment of dividends to persons included on the list of persons entitled to receive a dividend will be determined by reference to the data recorded in the shareholders' register, namely:

- Transfer to the shareholder's bank account;
- By post (with deduction of the postal charges);
- Cash payment at the Company's cashier offices (only for Company employees).

Item 3: Election of the Board of Directors of the Company.

Within the periods established by the Russian law, the Board of Directors received the following nominations for election to the Board:

1. Stanislav P. Avdiyants, Dmitry L. Ankudinov, Vadim E. Belov, Nikolai P. Yemelianov, Sergey I. Kuznetsov, Alexander V. Lopatin, Stanislav N. Panchenko, Victor A. Polischuk, Irina M. Ragozina, Evgeny V. Yurchenko, Valery N. Yashin. This nomination was received from OJSC Svyazinvest, which owns a total of 50.67% of Rostelecom's voting shares.
2. Mikhail V. Slipenchuk, Oleg R. Fedorov. This nomination was received from Auditaviatrust, which owns 2.00% of Rostelecom's voting shares.

Thus the list of candidates for election to the Board of Directors includes the following people:

1. Stanislav P. Avdiyants – Executive Director and Director of the Department of Economic and Tariff Policy at OJSC Svyazinvest;
2. Dmitry L. Ankudinov – Vice President of LLC Renaissance Capital;
3. Vadim E. Belov – Deputy General Director of OJSC Svyazinvest;
4. Nikolai P. Yemelianov – Regional Director of Novgorodtelecom brunch, OJSC North-Western Telecom;
5. Sergey I. Kuznetsov – General Director of OJSC Rostelecom;
6. Alexander V. Lopatin – Deputy General Director of OJSC Svyazinvest;
7. Stanislav N. Panchenko – Deputy General Director of OJSC Svyazinvest;
8. Victor A. Polischuk – President of OJSC Russian Telecommunications Network;
9. Irina M. Ragozina – Director of the Corporate Governance Department at OJSC Svyazinvest;

10. Mikhail V. Slipenchuk – General Director of LLC Investment Finance Company METROPOL;
11. Oleg R. Fedorov – Deputy Executive Director of the Association of the investors rights protection and member of the Management Board at the Non-Commercial Partnership “Association of Independent Corporate Directors”;
12. Evgeny V. Yurchenko– Deputy General Director of OJSC Svyazinvest;
13. Valeriy N. Yashin – General Director of OJSC Svyazinvest.

Item 4: Election of the Auditing Commission of the Company.

Within the periods established by the Russian law, the Board of Directors received the following nominations for election to the Company’s Auditing Commission:

1. Konstantin V. Belyaev and Irina V. Prokofieva. This proposal was received from OJSC Svyazinvest, which owns a total of 50.67% of Rostelecom’s voting shares.
2. Yuri L. Vodopyanov - Deputy General Director of LLC Investment Finance Company METROPOL. This nomination was received from Auditaviatrust, which owns 2.00% of Rostelecom’s voting shares.

Thus the list of candidates for election to the Auditing Commission includes the following people:

1. Konstantin V. Belyaev - Chief Accountant of OJSC Svyazinvest;
2. Yuri L. Vodopyanov - Deputy General Director of LLC Investment Finance Company METROPOL;
3. Irina V. Prokofieva - Deputy Director of the Department of Internal Audit and Economic Analysis at OJSC Svyazinvest.

Item 5: Approval of the external auditor of the Company for 2003 year.

The Board of Directors proposes the Annual General Meeting to confirm Ernst & Young Vneshaudit as the Company’s external auditor for 2003 years on Russian accounting standards.

Item 6: Approval of the restated Charter of the Company.

A draft restated version of the Company Charter is attached as Appendix No. 5.

Item 7: Approval of the restated Regulations on the General Meeting of Shareholders of OJSC Rostelecom.

Draft Regulations on the General Meeting of Shareholders of OJSC Rostelecom is attached as Appendix No. 6.

Item 8: Amendments and additions to the Regulations on the Board of Directors of OJSC Rostelecom.

Draft amendments to the **Regulations on the Board of Directors of OJSC Rostelecom** is attached as Appendix No. 7.

Item 9: Amendments and additions to the Regulations on the Management Board of OJSC Rostelecom.

Draft amendments to the Regulations on the Management Board of OJSC Rostelecom is attached as Appendix No. 8.

Pursuant to a resolution of the Board of Directors passed on 15 April 2003 (Minutes No. 4), the following matters will also be raised for consideration by the AGM.

Item 10: Termination of participation of the Company in the Association of Telecommunication Companies of the Volga Region.

Item 11: Termination of participation of the Company in the Association of Telecommunication Companies of Siberia and the Far East.

Item 12: Termination of participation of the Company in the Association of Telecommunications Association of the Central Chernozem Region.

Item 13: Termination of participation of the Company in the Association of Telecommunication Operators of the North Caucasus.

Approved by the Rostelecom's Board of Directors
in accordance with Minutes No. 4 of
the Meeting of the Board held on 15 April 2003

Annual Report for 2002

I. GENERAL INFORMATION

1.1. Full official name in Russian: Открытое акционерное общество междугородной и международной электрической связи «РОСТЕЛЕКОМ».

Full official name in English: Open Joint Stock Company Long-Distance and International Telecommunications Company "Rostelecom".

1.2. Legal address and location: 5 Delegatskaya Ulitsa, Moscow 127091, Russian Federation.
Postal address: 14 1st Ulitsa Tverskaya-Yamskaya, Moscow 125047.

1.3. Company's state registration date: 23 September 1993.
Registration number: 021.833.

1.4. Structure of the Company's equity at 31.12.2002

Table No. 1

| Ordinary shares | |
|---|----------|
| Principal groups of shareholders | % |
| OJSC Svyazinvest | 50.67 |
| Foreign shareholders | 38.43 |
| Russian shareholders | 8.83 |
| OJSC Rostelecom employees | 2.07 |
| Preferred shares | |
| Principal groups of shareholders | % |
| Foreign shareholders | 63.83 |
| OJSC Rostelecom employees | 22.30 |
| Russian shareholders | 13.87 |

The Company's charter capital is 2,428,819.4725 Rubles.

The Company's placed and authorized shares at 31.12.2002

Table No. 2

| Categories (types) of share | Number | Par value (Rubles) |
|------------------------------------|---------------|---------------------------|
| I. Placed shares: | | |
| • Ordinary shares | 728,696,320 | 0.0025 |
| • Type A preferred shares | 242,831,469 | 0.0025 |
| II. Authorized shares: | | |
| • Ordinary shares | 905,330,221 | 0.0025 |
| • Type A preferred shares | 531 | 0.0025 |

1.5. External auditor

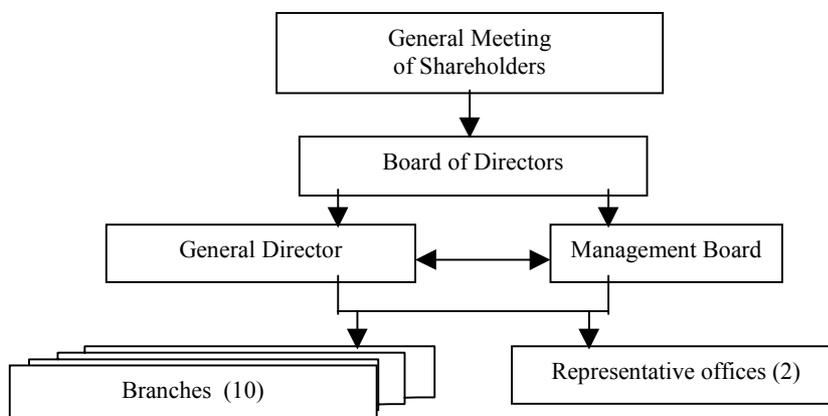
Full official name of the external auditor on Russian Accounting standards: CJSC Ernst and Young Vneshaudit.

License number: E003246
Licensing date: 17.01.2003
License valid until: a term of five years
Term of agreement: with respect to reports on financial statements prepared according to the requirements of Russian Federal legislation - 26 March 2003.

1.6. Registrar

Full official name: CJSC Registrar Svyaz.
License number: 10-000-1-00258
Licensing date: 01 October 2002
License valid until: no term prescribed
Licensing authority: Federal Commission for the Securities Market of the Russian Federation (FCSM)
Location: 15A, Bolshaya Olenya Str., Moscow, 107014
Postal address: 15A, Kalanchevskaya Str., Moscow, 107078

1.7. Organizational structure



II. REPORT ON RESULTS OF COMPANY DEVELOPMENT

2.1. Company's position within the Industry

Rostelecom is the largest Russian operator of fixed communications in the Russian Federation. It has an up to date nationwide digital trunk network. In all Russia's regions, apart from Moscow, the Company is an operator for operators, providing a full range of services via its trunk network, and linking Russian operators' networks in Russia into a unified transnational network.

On the Moscow market the Company provides international and long-distance telecommunications services to end-users through the last-mile infrastructure of the local telecommunications operator, and submits bills directly to customers.

The Company is the only Russian operator, which has a license for both incoming and outgoing international traffic. It participates in 30 international cable systems and works with 400 international operators.

Over recent years there has been consistent growth in the market for communications services, and a corresponding increase in the Company's income. In 2002 the Company maintained its leading position on the market for long-distance telecommunications, with the following market shares:

- Long-distance traffic throughout Russia was 87 % in physical terms;
- Outgoing international traffic from Russia was 80 % in physical terms;
- Incoming international traffic was 54 % in physical terms;
- Moscow market for long-distance and international traffic from end-users (including MGTS subscribers, alternative and mobile operators) was 47 % in physical terms.

2.2. Prospects for development in 2003

Today the Company's top priority is preparing for the forthcoming de-monopolization of the telecommunications' market. In this connection the Company is undertaking a series of measures to enable it to reposition itself during the building of a balanced market for telecommunications services in Russia.

Overall market objectives:

- Optimizing the system of mutual settlements between operators for long-distance and international services to create a balanced market model;
- Securing an overall rise in Company incomes from provision of all telecommunications services;
- Formalizing the Company's business processes for service provision so as to improve quality and speed in serving clients.

Objectives on the market for telecommunications operators:

Objectives on the national market of regional operators providing local telecommunications services:

- Strengthening the Company's dominant position on the market for service provision to regional operators;
- Stimulating a rise in traffic from regional operators;
- Securing an increase in income from providing long-distance and outgoing international traffic from regional operators.

Objectives on the national market of alternative operators:

- Expanding the regional client base by including new alternative operators;
- Securing an increase in income from providing long-distance and outgoing international traffic from alternative operators.

Objectives on the international market:

- Strengthening cooperation with national international operators;
- Securing growth in incoming international traffic on the Company's network;
- Securing a reduction in standard charges, including:
 - Optimizing the current links with international operators, and closing unprofitable routes, transferring part of the traffic to transit.
- Reducing the amount of mutual payables and receivables with international operators;
- Expanding access to international traffic exchange points in order to set up cooperation with the major alternative international operators.

Objectives on the Moscow end-users market:

- Stop the reduction in the Company's market share in service provision to end-users in Moscow by optimizing its tariff policy;
- Increase income by offering intelligent network communications;
- Reverse the trend to falling income from services to end-users on the Moscow market.

2.3 Main risk factors relating to the Company's business

The Company faces risks associated with the Russian legal system, which include the following:

- The dependence of the judiciary on diverse economic, political and national factors;
- The failure of executive bodies to take account of judicial decisions when applying legal norms to matters which have already been judicially decided;
- Inconsistencies in municipal, regional and federal laws;
- Lack of consistency in the courts' interpretations of legislative acts.

Regulation of telecommunications may also be subject to political influence. Because of this decisions of a regulatory nature may be taken on grounds other than legal grounds, and lead to unfavorable consequences. At present the telecommunications industry is regarded as a natural monopoly, and so under

the law the Company's business is controlled by the Ministry for Antimonopoly Policy and Support of Business.

At present the Company is obliged to comply with requirements in regard to licensing, competition, allocation of frequencies, and other general requirements on business pertaining to the public provision of telecommunications services. Amendments to legislative and regulatory acts which govern the telecommunications industry, and other decisions of the supervisory authorities which affect the Company's activity and that of its competitors, may all have a substantial effect on the Company's operations and their continuity.

The services, which the Company offers, are based on high technology. Hence to maintain its market share and level of competitiveness the Company must always be aware of and exploit the rapid developments in technology, and offer price-competitive services, which are consistent with the ever-changing standards in the industry.

III. REPORT ON PRIORITIES FOR COMPANY DEVELOPMENT

3.1 Optimizing the Company's structure

During 2002 substantial changes were made to Rostelecom's executive management, and management teams for its branches were set up. The appointed executives are professionals with industry experience and track records of success in both Russian and western telecommunications businesses.

The end of 2002 saw the official completion of reorganization of Rostelecom's branch network. At the start of 2002, the Company had 25 branches, and by 1 January 2003 this amount had been reduced to ten: seven regional ones and three operating ones.

The Company's 17 regional branches were transformed into seven enlarged ones in accordance with the service areas of OJSC Svyazinvest's regional operators, which represent Rostelecom's largest customers in Russia.

This reorganization was carried out in close cooperation with OJSC Svyazinvest, which in its turn combined the regional operators into seven interregional companies (IRC). In addition, OJSC Svyazinvest and OJSC Rostelecom signed a technical agreement for the plan for interconnecting the networks, and it provides the fundamental principles of cooperation between the Company and the IRC's.

Rostelecom's three operating branches include Long-distance and International Telephone (MMT), Main Control Center for Long-distance Telecommunications and Television (GTsUMS), and the Professional Educational Center (UPTs RT).

This reorganization has resulted in a significant decline in headcount due to administrative and management redundancies, and has increased management efficiency and operational transparency of the Company's branches, since the structures of the newly-established regional branches are based on uniform operating principles. It has also led to optimization of management and operation of the Company's network facilities.

3.2. Investment Policy

The main objective in Company development over 2002 was maintaining its leading position on the telecommunications market by further development and improvement of a unified digital transport telecommunications environment to provide transmission of all types of data.

This objective was implemented in the following areas:

- Construction of high-speed fiber-optic telecommunications trunk lines with a synchronous digital hierarchy;
- Reconstruction of existing trunk telecommunications lines using Dense Wavelength Division Multiplexing technology (DWDM);
- Construction of an Automatic Trunk Exchange;
- Use of digital modems to organize digital sections of microwave lines;
- Phasing out of analog trunk lines along with the expansion of the digital network.

Main investment projects in 2002:

- **Russia-Kazakhstan Fiber-optic line:**
A new fiber-optic line between Russia and Kazakhstan has created a second access to Kazakhstan for Rostelecom's trunk network (western segment). This line, connecting the Russian and Kazakh International Switching Centers, has completed the loop of existing telecommunications lines not only of the Russian Federation and the Republic of Kazakhstan, but also with those of China. The newly-built line is part of the existing line Samara-Saratov-Volgograd, with branches to Rostov-on-Don, Elista and Budyonnovsk.
- **1st Stage in constructing the Baltic Cable system:**
The first stage of the Baltic Cable System project jointly with the Swedish firm Telia is now complete. This included modernization of the line from Moscow-St. Petersburg-Kingissep using DWDM technology, and also expansion of the Company's participation in international cable systems.
- A new Automatic Trunk Exchange (ATE) was installed in the MTS-9 building in Moscow, and this will considerably expand the range of services available.
- In 2002 the Company started implementing projects to expand the throughput capacity of the Moscow-Novosibirsk and Moscow-Novorossiisk lines using DWDM technology. The additional equipment for the existing fiber-optic lines, together with the use of spectral density equipment will provide effective exploitation of existing lines over a long period, and also ensure attainment of the necessary throughput capacity. The use of DWDM modern optical technology in parallel with the existing PDH and SDH systems will facilitate transmission of all data types at a speed of more than 10 Gb/s.

In order to offer the service of leasing digital channels, in 2002 the Company began implementing a project to build a modern network of flexible multiplexes. This equipment with digital cross-switching functions will enable the Company to optimize network operations and fulfill customer needs to the highest standards by increasing its ability to provide digital channels with the necessary throughput capacity. The first stage is now operational, and it includes 20 Russian cities.

Facilities put into operation during 2002

Table No. 3

| Facility | Put into operation during 2002 | Put into operation during 2001 and 2002 |
|--|---------------------------------------|--|
| Long-distance cable communication lines (km) | 455.97 | 2,142.78 |
| Russia-Kazakhstan Fiber-optic line, 1 stage | 417.35 | |
| Russia-Kazakhstan Fiber-optic line, 2 stage | 38.62 | |
| Telecommunications satellites | - | 1 |
| International telephone exchanges (channels) | - | 1,320 |
| Automatic Trunk Exchange (ATE) (channels) | 5,910 | 16,710 |
| ATE at the MTS-9 building in Moscow | 5,910 | |
| City Telephone Exchanges (thousand numbers) | - | 2.6 |

3.3. Marketing policy

Because of the rapid developments in new technology, which enable operators to compete with the Company, in 2002 several projects were drawn up for introduction of new technology and its integration into the provision of traditional telecommunications services. Above all else, this involves a project to build a multi-service network, and also the development of card platforms and the creation of a united Rostelecom prepayment card. Implementation of these projects will have a very positive influence on future business and enable the Company to compete successfully.

Development of new technology and services enabling the Company to capture new markets and customers groups

To obtain fuller exercise of competitive advantages, in 2002 contracts were signed with all the regional operators for traffic in intelligent network services (INS), and provision was begun of the full range of Free Phone services. In addition, preparations were made to present the new Telephone voting service.

Establishing new commercial structures and appointing staff

During 2002 the Company followed a policy of hiring personnel with commercial experience on the telecommunications market, and also having the experience, education and skills which will ensure that the Company's services remain competitive, and also improve the quality of client relations.

At the same time, personnel rotation has been introduced. As a result, in 2002 saw a significant rise in the potential of its commercial services, and the effectiveness of their work. New commercial structures were set up, and their duties include functions, which are essential for efficient operations on the market. Of particular note are the marketing service, a call-center service for client relations, a strengthening of the sales service and the appointment of more sales managers.

Optimization of Business Processes

In this area Company policy was developed to provide flexibility in client relations, in determining client needs, in information provision, in ordering services and concluding contracts, and also in day-to-day client contact.

In order to fulfill this policy a special division was set up to optimize the Company's business processes and develop new ones in relation to existing and potential clients.

Tariff Policy

Over 2002 the Company carried out an optimization of its tariff policy. The main thrust of this work was to achieve consistent growth in the volume of services provided, and the elimination of imbalances between tariffs for different services for different market segments.

A new system was developed for mutual settlements with telecommunications operators for long-distance and international traffic, and this will provide a basis for income growth. These changes to mutual settlements are scheduled for introduction in 2003.

Main aspects of tariff policy in long-distance telecommunications in 2002

In 2002 the long-distance tariff for budget-funded organization in Moscow was raised. This was the latest step in elimination of one form of cross-subsidy, when income from long-distance services for one subscriber group (in this case, commercial organizations) is used to subsidize the same services for a different group, (in this case, state-financed organizations). In future this will enable the Company to have a more flexible tariff policy for the Moscow Region telecommunications market.

Tariffs for provision of digital channels during 2002 were increased to the level of the service alternative – provision of long-distance traffic, which is the Company's main service. As a result, the tariff imbalance between services was reduced, and there was less economic justification for the alternative operators to build their own overlying networks for this traffic to bypass the Company's network.

Main aspects of tariff policy for international telecommunications in 2002

During 2002 the tariffs for international calls to China were reduced for users in the Far East Region. This measure was dictated by a falling trend in outgoing traffic to China. As a result, the volume of traffic going through the Company's network from these regions more than doubled.

Negotiations were held during the year with foreign operators in order to reduce the tariffs for mutual exchange of traffic at guaranteed volumes. As a result, the volume of incoming traffic to Russia using the Company's network rose by 12%. In addition, the routing of outgoing international traffic was optimized.

Tariffs for Long-Distance Call Services Provided by the Company in Moscow. Direct Dialing.

Rubles

Table No. 4

| For state-financed organizations | | | | | | | | |
|---|---|---|---|--|---|--|---|--|
| | from 01.01.2000 | from 01.01.2001 | from 01.07.2001 | | from 01.01.2002 | | from 01.01.2003 | |
| Tariff zone | 24 hours a day, seven days a week | 24 hours a day, seven days a week | On working days from 20:00 to 08:00. 24 hours a day at weekends and on public holidays | On working days from 08:00 to 20:00 | On working days from 20:00 to 08:00. 24 hours a day at weekends and on public holidays | On working days from 08:00 to 20:00 | On working days from 20:00 to 08:00. 24 hours a day at weekends and on public holidays | On working days from 08:00 to 20:00 |
| Up to 100 km | 0.75 | 0.90 | 0.69 | 1.10 | 0.81 | 1.32 | 0.81 | 1.60 |
| 100-600 | 1.50 | 1.80 | 1.39 | 2.20 | 1.66 | 2.64 | 1.66 | 3.20 |
| 601-1200 | 1.90 | 2.30 | 1.76 | 2.80 | 2.14 | 3.36 | 2.14 | 4.05 |
| 1201-3000 | 2.30 | 2.80 | 2.14 | 3.40 | 2.53 | 4.08 | 2.53 | 4.90 |
| 3001-5000 | 3.10 | 3.70 | 2.80 | 4.45 | 2.92 | 5.34 | 2.92 | 6.40 |
| 5001-7000 | 3.90 | 4.70 | 3.56 | 5.65 | 3.59 | 6.78 | 3.59 | 8.15 |
| For individual subscribers | | | | | | | | |
| | from 18.10.1999 | | from 19.12.2000 | | from 01.07.2001 | | | |
| Tariff zone | On working days from 20:00 to 08:00 | | On working days from 20:00 to 08:00 | | On working days from 20:00 to 08:00 | | | |
| Up to 100 km | 0.67 | | 0.67 | | 0.81 | | | |
| 100-600 | 1.39 | | 1.39 | | 1.66 | | | |
| 601-1200 | 1.82 | | 1.82 | | 2.14 | | | |
| 1201-3000 | 2.03 | | 2.03 | | 2.53 | | | |
| 3001-5000 | 2.39 | | 2.39 | | 2.92 | | | |
| 5001-7000 | 2.78 | | 2.78 | | 3.59 | | | |
| Between 08:00 and 20:00 a coefficient K1 = 3 is applied. At weekends and on public holidays the coefficient is K2 = 0.5 | | | | | | | | |
| For self-financing organizations | | | | | | | | |
| | from 01.02.1999 | | from 19.12.2000 | | from 01.07.2001 | | | |
| Tariff zone | On working days from 20:00 to 08:00 | | On working days from 20:00 to 08:00 | | On working days from 20:00 to 08:00 | | | |
| Up to 100 km | 0.63 | | 0.81 | | 0.81 | | | |
| 100-600 | 1.27 | | 1.66 | | 1.66 | | | |
| 601-1200 | 1.64 | | 2.14 | | 2.14 | | | |
| 1201-3000 | 2.02 | | 2.53 | | 2.53 | | | |
| 3001-5000 | 2.78 | | 2.92 | | 2.92 | | | |
| 5001-7000 | 3.42 | | 3.59 | | 3.59 | | | |
| Between 08:00 and 20:00 a coefficient K1 = 3 is applied. At weekends and on public holidays the coefficient is K2 = 0.5 | | | | | | | | |

4. Corporate conduct in 2002

4.1. Shareholders' Annual General Meeting for 2001

The Shareholders' Annual General Meeting for 2001 was held on 1 June 2002. The Meeting was convened and conducted pursuant to Clause 15 of the Company Charter and Article 65 of the Federal Law "On Joint-Stock Companies" and a resolution of the Board of Directors dated 11 April 2002.

The following items appeared on the Agenda:

1. Approval of the Company's annual report, annual accounting statements, including profits and losses statement (profits and losses accounts) of the Company, and distribution of profits and losses upon the results of the reporting fiscal year (2001).
2. Determination of the amount, forms and payment deadlines of dividends for 2001 with respect to shares of each category.
3. Election of the Board of Directors of the Company.
4. Election of the Auditing Commission of the Company.

5. Approval of the external auditor of the Company for 2002.
6. Approval of the restated Charter of the Company.
7. Approval of the restated Regulations on the General Meeting of Shareholders of OJSC Rostelecom.
8. Approval of the restated Regulations on the Board of Directors of OJSC Rostelecom.
9. Amendments and additions to the Regulations on the Auditing Commission of OJSC Rostelecom.
10. Approval of the restated Regulations on the General Director of OJSC Rostelecom.
11. Approval of the restated Regulations on the Management Board of OJSC Rostelecom.
12. Participation of the Company in the "Iskra" Association of Federal Business Service Network Operators.

At the AGM it was decided as follows:

1. To approve the annual report, annual accounting statements, including profits and losses statement (profits and losses accounts) of the Company, and distribution of profits and losses upon the results of the reporting fiscal year (2001).
2. To agree the size of dividend payment for 2001, and the method of and term for payment on shares of each category.
3. To elect a Board of Directors with the following members: Vadim E. Belov, Nikolai P. Emelianov, Sergey I. Kuznetsov, Alexander V. Lopatin, Anton I. Osipchuk, Stanislav N. Panchenko, Viktor A. Polischuk, Irina M. Ragozina, Mikhail V. Slipenchuk, Grigory M. Finger, Valery N. Yashin.
4. To elect an Auditing Commission with the following members: Konstantin V. Belyayev, Irina V. Prokofieva, Irina A. Smirnova.
5. To appoint CJSC Ernst and Young Vneshaudit as the Company's external auditor for 2002.
6. To approve a restated version of the Company Charter.
7. To approve the restated Regulations on the General Meeting of Shareholders of OJSC Rostelecom.
8. To approve the restated Regulations on the Board of Directors of OJSC Rostelecom.
9. To amend to the Regulations on the Auditing Commission of OJSC Rostelecom.
10. To approve the restated Regulations on the General Director of OJSC Rostelecom.
11. To approve the restated Regulations on the Management Board of OJSC Rostelecom.
12. To approve participation in the "Iskra" Association of Federal Business Service Network Operators.

No extraordinary general meetings were held during the reporting year.

4.2. Work of the Board of Directors in 2002

At the Annual General Meeting held on 1 June 2002 the following people were elected to the Board of Directors:

1. Vadim E. Belov – Deputy General Director, OJSC Svyazinvest;
2. Nikolai P. Yemelianov – Regional Director of OJSC North-Western Telecom, a branch of Novgorodtelecom;
3. Sergey I. Kuznetsov – General Director, OJSC Rostelecom;
4. Alexander V. Lopatin – Deputy General Director, OJSC Svyazinvest;
5. Anton I. Osipchuk – First Deputy General Director, OJSC Svyazinvest;
6. Stanislav N. Panchenko – Deputy General Director, OJSC Svyazinvest;
7. Viktor A. Polishhuk – President of OJSC Russian Telecommunication Network ;
8. Irina M. Ragozina – Director of the Corporate Governance Department at OJSC Svyazinvest;
9. Mikhail V. Slipenchuk – General Director of LLC Investment Finance Company METROPOL;
10. Grigory M. Finger – authorized representative of Lindsell Enterprises Ltd;
11. Valery N. Yashin – General Director, OJSC Svyazinvest.

The first meeting of the newly-elected Board was held on 1 June 2002, and Valery N. Yashin was elected as chairman.

Additional information about the Chairman and members of the Board of Directors.

Valery N. Yashin graduated from Leningrad Electrotechnical Communications Institute as a telecommunications engineer. He started his career as a head of department in Petersburg Telephone Communications in 1978, and in 1995 became the company's general director. On 18 November 2000 Mr. Yashin was appointed Chairman of the Management Board at OJSC Rostelecom. Since 22 October 1999 he has been General Director and Chairman of the Management Board at OJSC Svyazinvest.

Vadim E. Belov graduated from Murmansk Higher Marine Engineering School, specializing as an engineer, and later he graduated from the law faculty of the Russian Academy of State Service. From 1995 to 1997 he was deputy head of the Antimonopoly Committee, and from 1997-1998 he was vice chairman of the Management Board at Commercial Bank "International Finance Company". From 1998-1999 Mr. Belov served as general director of the Moscow Representative office of SPK Capital Ltd. Later in 1999 he was appointed deputy General Director and a member of the Management Board at OJSC Svyazinvest.

Nikolai P. Yemeljanov graduated from Novgorod Polytechnical Institute as a radio engineer. From 1995 he was General Director of OJSC Novgorodtelecom, and since 2002 he has been Regional Director of North-Western Telecom, a branch of OJSC Novgorodtelecom.

Sergey I. Kuznetsov graduated as a systems engineer specializing in computers, and later qualified in management at Columbia University and Duke University Business School. From 1995-1998 he was General Director of Telecominvest, and from 1998-2001 he was General Director of CJSC PeterStar. On 23 February 2001 Rostelecom's Board of Directors appointed Mr. Kuznetsov as acting General Director. His authority in this post was confirmed by the AGM on 30 June 2001. Mr. Kuznetsov has also been a member of the Company's Board of Directors since 1 June 2002.

Alexander V. Lopatin graduated from the Popov Higher Naval School of Radio-electronics, and has a doctorate in economics. From 1995 to 1999 he was Deputy Director for Asset Management, and later he became Director for Asset Management and Financial Director at RAO UES Rossiya. Since April 2000 Mr. Lopatin has been Deputy General Director and member of the Management Board at OJSC Svyazinvest.

Anton I. Osipchuk graduated from Leningrad State University as an economist. From 1995 to 1996 he was head of the Economics Department at OJSC Inkombank, and from 1996-1997 he was Deputy Manager of the bank. From 1997-2000 Mr. Osipchuk was Deputy General Director for Economics and Finance at OJSC Telecominvest. From April 2000 to November 2002 he was First Deputy General Director of OJSC Svyazinvest.

Stanislav N. Panchenko graduated from Chelyabinsk Polytechnical Institute as an electrical engineer. From 1971 to 1996 he served in the Soviet Forces. Since 1996 Mr. Panchenko has been Deputy General Director of OJSC Svyazinvest.

Viktor A. Polischuk graduated from Moscow Aviation Institute, and has a doctorate in technical sciences. Since 1995 he has been President of OJSC Russian Telecommunication Network.

Irina M. Ragozina graduated from Moscow Electro-technical Institute of Telecommunications as an engineer-economist. Between 1996 and 1999 she was Deputy Manager and later Manager of the Service for Management of Shareholdings of OJSC Svyazinvest. Since September 1999 she has been Director of the Corporate Governance Department at OJSC Svyazinvest.

Mikhail V. Slipenchuk graduated from the Geography Faculty of Moscow State Lomonosov University, where he defended his doctoral dissertation in geographical sciences. In 1997 he graduated from the Department of Finance and Credit at the Intersectoral Institute for Professional Retraining at the Plekhanov Academy of Economics. Mr. Slipenchuk began his career as a broker on the Russian Goods and Raw Materials Exchange and the Central Russian Universal Exchange. Since March 1995 he has been General Director of LLC Investment Finance Company METROPOL.

Grigory M. Finger graduated from Moscow Chemical Technology Institute, specializing in computer science. Since 1995 Mr. Finger has been head of the Moscow Representative Office of NCH Advisors Inc.

At 31 December 2002 no member of the Rostelecom Board of Directors held any share in the Company. During 2002 the Board of Directors held a total of 15 meetings and absentee votes.

Main decisions taken by the Board of Directors in 2002:

- Approving the Company's business plan and budget for 2002;
- Approving the final stage in reorganization of the Company's branches;

- Approving the Company's transactions in relation to optimizing investment in its subsidiaries, and also interested-party transactions, including the decision to terminate participation in EDN Sovintel, and to purchase shares in Golden Telecom, Inc;
- Taking numerous decisions in connection with conduct of the AGM for 2001, approving share issuers reports, reviewing the program of measures for investor relations and developing the secondary market in shares for 2002.

4.3. Information on the Management Board for 2002

At the first Management Board meeting held on 1 June 2002 its composition was confirmed. The meeting was chaired by the Company's General Director, Sergey I. Kuznetsov. The members of the Management Board are as follows:

1. Vladimir I. Androsik – Deputy General Director and Finance Director of OJSC Rostelecom;
2. Dmitry E. Erokhin – First Deputy General Director of OJSC Rostelecom;
3. Igor V. Zabolotny – General Director of OJSC Dalsvyaz;
4. Vadim Yu. Izotov – Deputy General Director and Director for Information Technology at OJSC Rostelecom;
5. Alexander V. Lopatin – Deputy General Director of OJSC Svyazinvest;
6. Alexander A. Lutsky – Chief Accountant of OJSC Rostelecom;
7. Vladimir K. Mironov – Deputy General Director for Personnel and Security at OJSC Rostelecom;
8. Alexander V. Mikhalev – Deputy General Director and Administrative Director of OJSC Rostelecom ;
9. Marina D. Oleshek – Deputy General Director and Director for Organizational Development and Personnel Management at OJSC Rostelecom;
10. Vladimir V. Terekhov – Deputy General Director and Technical Director at OJSC Rostelecom.

Additional information about the General Director and members of the Management Board.

Sergei I. Kuznetsov (see above under Information about the Board of Directors).

Dmitry E. Erokhin graduated from Dagestan Polytechnical Institute, specializing as a design engineer of radio equipment. From 1996 he worked in a Rostelecom branch, TTsMS-9, in May 1997 becoming its director. Prior to that employment, Mr. Erokhin worked for 18 years in TUSM-6 of TTsMS-9 of the USSR Telecommunications Ministry and 5 years at GPSI Rossvyazinform. Since October 2001 Mr. Yerokhin has been First Deputy General Director at OJSC Rostelecom.

Vladimir I. Androsik graduated from St. Petersburg University as an economist-mathematician. From 1997 to 2001 Mr. Androsik worked at CJSC PeterStar, where his final post, in 2001, was Deputy Finance Director. From April 2001 he was economic and financial adviser to Rostelecom's General Director, and in September of that year he was appointed as the Company's Deputy General Director and Finance Director.

Igor V. Zabolotny worked for Rostelecom between 1997 and 1999. From December 1999 to January 2003 he was Executive Director and Director for Marketing and Sales at OJSC Svyazinvest. In December 2002 he was elected to the post of General Director of OJSC Dalsvyaz.

Vadim Yu. Izotov graduated from Leningrad Polytechnical Institute as a systems engineer. From 1996 until taking up employment with OJSC Rostelecom he worked at CJSC North-West GSM. From May 2001 Mr. Izotov was IT adviser to Rostelecom's General Director, and from September 2001 he was appointed as a Deputy General Director and Director for Information Technology.

Alexander A. Lopatin (see above under Information about the Board of Directors).

Alexander A. Lutsky graduated from Leningrad Institute of Finance and Economics as an economist. From September 1997 to June 2000 he was Finance Director at CJSC Sankt-Peterburgskiy Taksofony, and from July 2000 he was Finance Director at CJSC Peterburg Transit Telecom. Since July 2001 Mr. Lutsky has been Chief Accountant at OJSC Rostelecom.

Vladimir K. Mironov was Director of the Department of Security at CJSC PeterStar, and before that he served in the Russian Armed Forces. Mr. Mironov was appointed Deputy General Director for Personnel and Security at OJSC Rostelecom in March 2002.

Alexander V. Mikhalev was Deputy Director for General Matters at CJSC PeterStar from 1999, and from 2001 Director of the Administrative Department at CJSC Peterburg Transit Telecom. In February 2002 Mr. Mikhalev was appointed as an adviser to the General Director at Rostelecom, and from April 2002 he

was Deputy General Director and Administrative Director. He was relieved from his post on 31 January 2003. Mr. Mikhalev was dismissed from that position from 31 January 2003.

Marina D. Oleshek graduated from Moscow Telecommunications Institute as an engineer, and later studied personnel management. From 1990 to 1999 she headed the personnel department at various major Russian companies, and from January 1999 she was Personnel Director at OJSC Vimpelcom. Since September 2001 Mrs. Oleshek has been Deputy General Director and Director for Organizational Development and Personnel Management at OJSC Rostelecom.

Vladimir V. Terekhov graduated from Kiev Higher Military Engineering School of Telecommunications, specializing in radio communications. From 1994 to 2001 he worked at CJSC PeterStar, rising to become Deputy Technical Director for development and Engineering. From 2001 he was Deputy General Director for Technical Development at CJSC Peterburg Transit Telecom. In April 2002 Mr. Terekhov was appointed as the Company's Deputy General Director and Technical Director of OJSC Rostelecom.

At 31 December 2002 no member of the Management Board owned any shares in the Company, with the exception of Dmitry E. Erokhin, who has a stake of 0.0007% in the charter capital. During 2002 the Management Board held 14 meetings.

Main decisions taken by the Management Board in 2002:

- Submission of the Company's draft business plan and budget for 2002 to the Board of Directors for their review;
- Submission of proposals for restructuring the Company's branches to the Board of Directors for their review;
- Deciding to transfer various residential and social facilities from the balance sheets of the Company's subsidiaries to those of the municipal authorities where they are located;
- Phasing-out of analog trunk lines.

4.4. Remuneration for members of the Board of Directors, the General Director and members of the Management Board

The scale of remuneration for members of the Board of Directors and the Management Board is determined in accordance with the Regulations on the Board of Directors and the Regulations on the Management Board respectively. In determining the salary for the Company's General Director consideration is given to the terms and conditions of his contract of employment.

Thus over 2002 the aggregate remuneration paid to the General Director, members of the Management Board and members of the Board of Directors amounted to 43,791,829 rubles.

4.5. Information on the Auditing Commission

The Company's Auditing Commission was elected on 1 June 2002 at the Shareholders' AGM, and its members were as follows:

- Konstantin V. Belyayev – Chief Accountant, OJSC Svyazinvest;
- Irina V. Prokofieva – Deputy Director of the Department of Internal Audit and Economic Analysis at OJSC Svyazinvest;
- Irina A. Smirnova – Deputy Chief Accountant at OJSC Rostelecom.

During conduct of the audits the following people were co-opted onto the Commission from the Department of Internal Audit and Economic Analysis at OJSC Svyazinvest: Chief Specialists K. V. Frolov, S. I. Alekhin and Ye. N. Kukudzhanova, and Leading Specialist Ye. A. Pavlova.

Over the reporting year the Auditing Commission held five meetings.

Four audits were undertaken, one of which was a visit to the Company's subsidiary TTsMS-15 in Khabarovsk. Of these none were undertaken on instructions of the general shareholders' meeting, four were undertaken on the Commission's own initiative, and none were undertaken in response to a request from shareholders holding more than 10 % of the Company's voting shares. The results of the audits gave no reason to make substantial comments.

The financial audits investigated the following matters:

- The accuracy of information contained in the statements and other financial documents for 2002;
- The procedure for keeping the accounts and submitting financial reports for 2002;

- The procedure for making accounting entries and tax payments on international telecommunications services.

4.6. Payment of dividends on the Company's shares

In accordance with a resolution of the Company's AGM for 2001 379,592,000 rubles was allocated for payment of dividends, and they were paid to the Company's shareholders between 1 August and 31 December 2002. At 31 December 2002 the Company's debt to shareholders in respect of dividend payments amounted to 47,593,000 rubles.

The sole reason for non-payment of dividends is the failure of shareholders to change the relevant information in the shareholders' register concerning the method for dividend payment where:

- They have changed their address and elected to receive dividends by post;
- They have changed their bank account and elected to receive dividends by bank transfer;
- An employee has left the Company's employ and is no longer entitled to receive dividends from the cashier's office;
- They have changed their passport, irrespective of the method chosen for receipt of dividends.

At the same time, pursuant to Article 44.5 of Federal Law No. № 208-FZ "On Joint Stock Companies", as amended on 30 October 2002, a shareholder is obliged to give prompt notification the Company's registrar, CJSC Registrar-Svyaz, of any changes in the relevant information. Where a shareholder fails to make such notification neither the Company nor the Registrar is liable for any consequent losses.

When a shareholder provides the Company with the new details required for dividend payment, they are entered on the form for the individual concerned or for the relevant legal entity, which is then sent to CJSC Registrar-Svyaz, the Company's registrar, which then makes a second attempt to send out the dividend payment.

4.7. Compliance with the Code of Corporate Conduct

The Company's management has always endeavored to comply with high standards of corporate governance, including the demands of the Code of Corporate Conduct, recommended by the Federal Commission for the Securities Market on 4 April 2002 (hereinafter the FCSM Code).

The first step in this direction was the acceptance at a meeting of the Board of Directors on 11 April 2002 of a Declaration of Principles of Corporate Governance. In this document the Company has undertaken to draw up a Code of Corporate Conduct for Rostelecom by the end of 2003, and it will be consistent with those principles of corporate governance which are accepted internationally and in Russia.

Since the Company's ordinary shares in the form of II Level American Depositary Receipts are quoted on the New York Stock Exchange, at the present time the Company's main efforts are being concentrated on improving its practice of corporate governance and bringing it into correspondence with the requirements of the Sarbanes-Oxley Act dated 30 July 2002.

Further acknowledgement of the Company's efforts comes from the improvement in its position from 25th to 10th in the corporate governance rating for II quarter of 2002 carried out by the Institute of Corporate Law and Governance. In its latest research the rating agency Standard & Poor's also gave a high assessment to the Company's level of transparency, awarding it sixth place.

Since high standards of corporate governance are an essential condition for the Company to conduct its business successfully, and further, in order to reach mutual understanding with all interested parties, the Company affirms its willingness to comply in full with all the requirements of the FCSM Code and take all necessary measures to improve the quality of its corporate governance.

4.8. Interested party transactions

On January 1, 2002, the Company entered into an agreement for the lease of non-residential premises in the city of Moscow, under which Rostelecom acts as a Lessee and Open Joint Stock Company Moscow International Telephone Exchange No. 9 (OJSC MMTS-9) acts as a Lessor. The lease was concluded for one year in a total sum of 66 million rubles. The main provision of this lease is that MMTS-9 will grant to the Company temporary possession and use of non-residential premises in the building located at 9 Ul. Butlerova, Moscow. Agreement № 10 – AP/2002 was approved by the Board of Directors on 3 October 2002 (Minutes No. 5).

The person acknowledged as an interested party in this transaction was Dmitry E. Erokhin, who is a member of Rostelecom's Management Board and also a member of the Board of Directors at MMTS-9.

On January 1, 2002, the Company and OJSC Svyazinvest entered into an agreement for the provision by the Company of services for automated processing of accounting documents and statistical reports of OJSC Svyazinvest and its subsidiaries. Agreement No. AOD-2/2002 was approved by the Company's Board of Directors on 3 October 2002 (Minutes No. 5).

People who were acknowledged as having an interest in the conclusion of this contract were as follows: Valery N. Yashin, Chairman of Rostelecom's Board of Directors, Chairman of the Management Board and General Director of OJSC Svyazinvest; Vadim E. Belov – a member of Rostelecom's Board of Directors, and member of Svyazinvest's Management Board; Anton. I. Osipchuk – a member of Rostelecom's Board of Directors and Management Board; Stanislav. N. Panchenko – member of Rostelecom's Board of Directors and Management Board; Sergey. I. Kuznetsov – a member of the Board of Directors, General Director and Chairman of the Management Board at OJSC Rostelecom, and a member of the Management Board at OJSC Svyazinvest; Alexander. V. Lopatin – member of Rostelecom's Board of Directors and Management Board, and a member of Svyazinvest's Management Board; OJSC Svyazinvest – a shareholder in Rostelecom with a stake of 50.67% of the voting shares.

On February 26, 2002, the Company and OJSC RTC-Leasing entered into an agreement for the Company's purchase of 1,075,873 ordinary registered shares in OJSC RTC-Leasing representing 25.83% of its charter capital and being placed with the total value of RUR 10,758,730. Assignment of the ownership rights in the shares took place on 25 March 2002. The agreement for sale of securities No. 008-220/02 was approved by the Company's Board of Directors on 13 March 2002 (Minutes No. 4).

Parties acknowledged as having an interest in concluding this contract were: Sergey I. Kuznetsov – a member of the Board of Directors, General Director and Chairman of the Management Board at OJSC Rostelecom, and a member of the Board of Directors at OJSC RTK-Leasing; Nikolai P. Yemelyanov – a member of the Board of Directors at OJSC Rostelecom, and a member of the Board of Directors at OJSC RTK-Leasing.

On March 20, 2002, the Company and Non-Commercial Partnership Center for Telecommunications Problems Research (the Partnership) entered into an agreement for the transfer by the Company of special-purpose cash funds to the Partnership to implement the industry-wide projects within the scope of its activities envisaged in its charter. This transfer was aimed to financing grants for telecommunication field development projects, which were jointly approved with the other participants of the Partnership. The agreement was approved by the Company's Board of Directors on 15 May 2002 (Minutes No. 7).

Parties acknowledged as having an interest in concluding this contract were: Anton I. Osipchuk – a member of Rostelecom's Board of Directors, Chairman of the Council at the Partnerships; Sergey I. Kuznetsov - a member of the Board of Directors, General Director and Chairman of the Management Board at Rostelecom, and a member of the Council at the Partnership; Alexander. V. Lopatin – a member of Rostelecom's Board of Directors, and Director of the Partnership.

On March 26, 2002, the Company and the Partnership entered into an agreement for the purchase and sale of securities, under which the Company transferred to the Partnership the right of ownership to 65,326 ordinary registered shares representing 22% of the charter capital of OJSC Giprosvyaz. The agreement for sale of securities No. 4-TsB was approved by the Company's Board of Directors on 13 March 2002 (Minutes No. 4).

Parties acknowledged as having an interest in the conclusion of this contract were: Sergey I. Kuznetsov - a member of the Board of Directors, General Director and Chairman of the Management Board at OJSC Rostelecom, and a member of the Council at the Partnership .

On March 31, 2002, the Company and CJSC ROSPAC entered into an agreement for purchase and sale of CJSC ROSPAC's network, under which CJSC ROSPAC is to transfer to the Company equipment of its data transmission network, which equipment is used to provide communication services for a purchase price of RUR 9,350,000. Contract No. 166-2.20 was approved by the Company's Board of Directors on 10 December 2002 (Minutes No. 8).

Parties acknowledged as having an interest in the conclusion of this contract were: Vadim. Yu. Izotov – a member of Rostelecom’s Management Board, and General Director of ROSPAC; OJSC Svyazinvest – a shareholder in Rostelecom with a stake of 50.67% of the voting shares, to which CJSC ROSPAC is an affiliated party.

On May 6, 2002, the Company and CJSC RTC-Invest entered into an agreement for the purchase and sale of securities, under which CJSC RTC-Invest transferred to the Company 30 ordinary registered uncertified shares in CJSC MTs NTT, with the nominal value of RUR 1,000 per share and for a total purchase price of RUR 1,290,000. This contract was approved by the Company’s Board of Directors on 21 June 2002 (Minutes No. 2). On May 6, 2002 the Company and CJSC Sovet-Holding entered into an agreement for the purchase and sale of securities, under which CJSC Sovet-Holding transferred to the Company 30 ordinary registered uncertified shares in CJSC MTs NTT, with the nominal value of RUR 1,000 per share. The Company paid a total purchase price of 1,290,000 rubles. Contract No. 271-2.20 was approved by the Company’s Board of Directors on 21 June 2002 (Minutes No. 2). The transfer of ownership rights in the MTs NTT shares took place on 9 October 2002. Thus Rostelecom’s stake in the share capital of MTs NTT was increased from 20% to 60%.

The person acknowledged as having an interest in the conclusion of this contract was: Vladimir I. Androsik – a member of Rostelecom’s Management Board, and a member of the Board of Directors at RTK-Leasing.

On 28 May 2002 the Company and OJSC Svyazinvest-Media concluded an agreement to place advertisements about the Company in regional issues of the Yellow Pages. Contract No. 560-2.8 was approved by the Company’s Board of Directors on 25 July 2002 (Minutes No. 3).

The person acknowledged as having an interest in the conclusion of this agreement was: Valery N. Yashin – Chairman of Rostelecom’s Board of Directors, and Chairman of the Board of Directors at OJSC Svyazinvest-Media.

On June 21, 2002, the Company and CJSC Registrator-Svyaz entered into an agreement for the sale and purchase of securities, under which CJSC Registrator-Svyaz transferred to Rostelecom 265 ordinary registered uncertified shares in CJSC Registrator-Svyaz, for a total purchase price of RUR 1,537,000. The agreement No. 387-2.20 was approved by the Company’s Board of Directors on 21 June 2002 (Minutes No. №2). The transfer of ownership in the CJSC Registrator-Svyaz shares took place on 3 July 2002. As a result, the Company increased its stake in CJSC Registrator-Svyaz to 8.64%.

Parties acknowledged as having an interest in the conclusion of this transaction were: OJSC Svyazinvest – a shareholder in Rostelecom with a stake of 50.67% of the voting shares, to which CJSC Registrator-Svyaz is an affiliated party.

On August 1, 2002, the Company and OJSC RTComm.RU entered into an agreement for the performance by the Company, upon instructions of OJSC RTComm.RU, of legal and non-legal actions relating to: entering into agreements for the provision of data transmission and to telematic services, in the Company’s name but at OJSC RTComm.RU’s expense, with international operators; arranging for customers’ connection to OJSC RTComm.RU’s network; making settlements with clients that have agreements of OJSC Rostelecom. The agency commission fee is 30% of total amount of invoices paid by customers to OJSC Rostelecom. Contract No. 585-1.16 was approved by the Company’s Board of Directors on 3 October 2002 (Minutes No. 5).

Parties acknowledged to have an interest in the conclusion of this transaction were: Valery N. Yashin – Chairman of Rostelecom’s Board of Directors, and a member of the Board of Directors at OJSC RTKomm.RU; Anton I. Osipchuk – a member of Rostelecom’s Board of Directors, and a member of the Board of Directors at OJSC RTKomm.RU; Sergey I. Kuznetsov - a member of the Board of Directors, General Director and Chairman of the Management Board at OJSC Rostelecom, and a member of the Board of Directors at OJSC RTKomm.RU; Vladimir I. Androsik – a member of Rostelecom’s Management Board, and a member of the Board of Directors at OJSC RTKomm.RU.

On August 5, 2002, the Company and CJSC Westelcom entered into an agreement for the allocation to the Company of a capacity in the international cable system BSFOCS (Black Sea Fiber Optics Cable System), which is owned by CJSC Westelcom, for a term of 25 years. Contract No. PR.01.98/1 was approved by the Company’s Board of Directors on 3 October 2002 (Minutes No. 5).

The person acknowledged as having an interest in the conclusion of this contract was: Vladimir I. Androsik – a member of Rostelecom's Management Board, and a member of Westelcom's Board of Directors.

On November 1, 2002, the Company and CJSC Westelcom signed an agreement for the termination of the earlier concluded agreement, under which the Company leased equipment from CJSC Westelcom for expanding international switching centers capacity, and entered into a new equipment lease agreement, under which CJSC Westelcom rents its equipment designed to provide telecommunication services to the Company. The above transactions were made in order to reduce the Company's costs under the previous agreement on lease of equipment. Under the terminated agreement, payment was calculated on the basis of actual traffic volumes going through the switching station, while under the new agreement there is a fixed monthly leasing charge of US \$ 26 000 without VAT, which means a significant saving in expenditure. The Company's Board of Directors gave approval to the Leasing Agreement and the Agreement to terminate the previous agreement on 10 December 2002 (Minutes No. 8).

Parties acknowledged as having an interest in the conclusion of this transaction were: Vladimir I. Androsik – a member of Rostelecom's Management Board, and a member of Westelcom's Board of Directors; OJSC Svyazinvest – a shareholder with a stake of 50.67% of the voting shares in Rostelecom, to which CJSC Westelcom is an affiliated entity.

On November 15, 2002, the Company and CJSC Globus Telecom entered into an agreement for the connection of CJSC Globus Telecom's network to the Company's network for the purpose of providing access to Rostelecom's network in order to render international and long-distance services to CJSC Globus-Telecom' subscribers. Contract No. 876-2.8 was approved by the Company's Board of Directors on 3 October 2002 (Minutes No. 5).

The person acknowledged to have an interest in the conclusion of this contract was: Sergey I. Kuznetsov - a member of the Board of Directors, General Director and Chairman of the Management Board at OJSC Rostelecom, and Chairman of CJSC Globus Telecom's Board of Directors.

On November 26, 2002, the Company and OJSC Elektrosvyaz of the Tver region entered into an agreement for the purchase and sale of OJSC Elektrosvyaz' interest in LLC Tver Telecom. LLC Tver Telecom, with a nominal value of RUR 21,338.24. The purchase price paid by the Company was RUR 21,338.24. As a result of the transaction, the Company's share in the charter capital of LLC Tver Telecom increased from 15% to 26%, in line with the Company's strategy to invest in assets of companies providing telecommunication services or engaged in the sector of telecommunication services otherwise. Contract No. 994-2.20 was approved by the Company's Board of Directors on 3 October 2002 (Minutes No. 5).

The party acknowledged to have an interest in the conclusion of this contract was: OJSC Svyazinvest – a shareholder with a stake of 50.67% of the voting shares of Rostelecom, which owns more than 20% of the shares in Tver Region Elektrosvyaz.

On December 6, 2002, an agreement between the Company and OJSC RTComm.RU became effective, under which terms the Company undertook to perform, upon instructions of OJSC RTComm.RU, legal and non-legal actions relating to: entering into an agreement with the Chief Administration of Information Resources of Russian Federation State Power Authorities of the Federal Agency of Governmental Communications and Information under the President of the Russian Federation (GUIR FAPSI) for providing data transmission and telematic services in the Company's name but at OJSC RTComm.RU's expense; and to entering into settlements with the customer under the state contract The commission fee amounts to 10%. Contract No. 35-AI/09/02 was approved by the Company's Board of Directors on 3 October 2002 (Minutes No. 5).

Parties acknowledged as having an interest in the conclusion of this contract were: Valery N. Yashin – Chairman of Rostelecom's Board of Directors, and a member of the Board of Directors at OJSC RTKomm.RU; Anton I. Osipchuk – a member of Rostelecom's Board of Directors, and a member of the Board of Directors at OJSC RTKomm.RU; Sergey I. Kuznetsov - a member of the Board of Directors, General Director and Chairman of the Management Board at OJSC Rostelecom, and a member of the Board of Directors at OJSC RTKomm.RU; Vladimir I. Androsik – a member of Rostelecom's Management Board, and a member of the Board of Directors at OJSC RTKomm.RU.

On December 10, 2002, the Company and RTC-Leasing entered into an agreement for the allocating of the amount of a common share of expenses incurred by OJSC RTC-Leasing to compensate cancelled automobile road user tax, which expenses were included into the calculation of the total amounts of lease payments by the Company under all leasing agreements with OJSC RTC-Leasing, by reducing RUR 74,750,782 (excluding VAT) the total amount of lease payments under certain leasing agreements between the parties lasting up to year 2007. This Agreement was approved by the Company's Board of Directors on 10 December 2002 (Minutes No. 8).

Parties acknowledged as having an interest in the conclusion of this agreement were: Sergey I. Kuznetsov - a member of the Board of Directors, General Director and Chairman of the Management Board at OJSC Rostelecom, and a member of the Board of Directors at OJSC RTK-Leasing; Vadim E. Belov – a member of Rostelecom's Board of Directors, and a member of the Board of Directors at OJSC RTK-Leasing; Anton I. Osipchuk – a member of Rostelecom's Board of Directors, and a member of the Board of Directors at OJSC RTK-Leasing.

On December 11, 2002, the Company and OJSC Moscow City Telephone Network (OJSC MGTS) entered into an agreement for the purchase and sale of securities in OJSC Ms-Tel, under which the Company undertook to transfer to OJSC MGTS 500 ordinary registered uncertified shares in OJSC MS-Tel, each with the nominal value of RUR 50,000, representing 50% of the charter capital of OJSC MS-Tel. The purchase price paid by OJSC MGTS was RUR 50,000. The agreement No. 10643 was approved by the Company's Board of Directors on 10 December 2002 (Minutes No. 8). Transfer of ownership rights to MS-Tel's shares took place on 30 December 2002.

Parties acknowledged as having an interest in the conclusion of this contract were: Valery N. Yashin – Chairman of Rostelecom's Board of Directors, and member of the Board of Directors at OJSC MGTS; Alexander V. Lopatin – a member of Rostelecom's Board of Directors and Management Board, and a member of the Board of Directors at OJSC MGTS; Anton I. Osipchuk – a member of Rostelecom's Board of Directors, and a member of the Board of Directors at OJSC MGTS; Irina M. Ragozina – a member of Rostelecom's Board of Directors, and a member of the Board of Directors at OJSC MGTS.

On December 25, 2002, the Company and OJSC RTComm.RU entered into an agreement for the purchase and sale of shares in OJSC RTComm.RU, under which OJSC RTComm.RU undertook to transfer to the Company 1,250,000,001 ordinary registered uncertified shares in OJSC RTComm.RU, each with a nominal value of RUR 0.01. The purchase price paid by the Company was RUR 12,500,000.01. Contract No. 1023-2.20 was approved by the Company's Board of Directors on 10 December 2002 (Minutes No. 8). As a result of the transaction, the Company's share in the equity of OJSC RTComm.RU increased from 25% plus 1 share to 31,1%.

Parties acknowledged as having an interest in the conclusion of this contract were: Sergey I. Kuznetsov - a member of the Board of Directors, General Director and Chairman of the Management Board at OJSC Rostelecom, and a member of the Board of Directors at OJSC RTKomm.RU; Vladimir I. Androsik – a member of Rostelecom's Management Board, and a member of the Board of Directors at OJSC RTKomm.RU.

On December 26, 2002, the Company and Non-Commercial Partnership Center for Telecommunications Problems Research (the Partnership) entered into an agreement for the purchase and sale of shares in CJSC RTC-Invest. Under the agreement, Rostelecom undertook to transfer to the Partnership 50,000 ordinary registered uncertified shares in CJSC RTC-Invest with a nominal value of RUR 75,000, which shares represent 0.5% of the charter capital in CJSC RTC-Invest. The purchase price received by the Company was RUR 805,000. Contract No. 1044-2.20 was approved by the Company's Board of Directors on 10 December 2002 (Minutes No. 8). Prior to 2002, the Company owned 13.5% of CJSC RTC-Invest's charter capital, but, after the issuance of additional shares in September of 2002, in which the Company did not participate pursuant to the decision of its Board of Directors, the above interest was diluted to 0.5%. Therefore, having sold the 50,000 shares in CJSC RTC-Invest to the Partnership, the Company ceased to be a shareholder of CJSC RTC-Invest.

Parties acknowledged as having an interest in the conclusion of this contract were: Alexander V. Lopatin – Director of the Partnership, and a member of Rostelecom's Board of Directors and Management Board; Sergey I. Kuznetsov - a member of the Board of Directors, General Director and Chairman of the

Management Board at OJSC Rostelecom, and a member of the Partnership Council; Vadim E. Belov – Chairman of the Council at the Partnership, and a member of Rostelecom’s Board of Directors.

4.9. Transactions which have major significance for the Company’s financial activity

On March 13, 2002, the Company, CJSC SFMT-CIS, Inc. and LLC Teleross, a subdivision of Golden Telecom, entered into an agreement for the purchase by LLC Teleross from the Company of a 50% share in the charter capital of EDN Sovintel. In exchange for the 50% share in the charter capital of EDN Sovintel, Rostelecom acquired 15% of shares of Golden Telecom, Inc., US\$10 million in cash and interest-free promissory note by LLC Teleross for the total principal amount of US\$ 46 million maturing upon expiration of 90 days from the date of the shares transfer. This agreement was approved by the Board of Directors on 14 August 2002 (Minutes No. 4). The transfer of ownership to the shares in Golden Telecom, Inc. took effect on September 5, 2002.

On June 25, 2002, the Company and Russian Telecommunications Development Corporation, Inc. entered into an agreement for the purchase and sale of shares in CJSC Westelcom, under which RTDC Holdings, Inc. undertook to transfer to the Company 50 ordinary registered uncertified shares in CJSC Westelcom, with the total value of US\$15,000,000. The transfer of ownership to the shares in CJSC Westelcom took effect on October 10, 2002, after which the Company’s share in the equity of CJSC Westelcom was increased from 50% to 100%. As a result, the Company acquired complete control over a number of strategically important assets, including international telephone exchanges in Moscow and Saint Petersburg and the right to participate in international cable systems. This agreement was approved by the Board of Directors on 3 October 2002 (Minutes No. 5). As a result the Company obtained full control over several strategically important assets, among which are international telephone exchanges in Moscow and St. Petersburg, and the right to participate in international cable systems.

The parties acknowledged as having an interest in this transaction were: OJSC Svyazinvest as a shareholder in Rostelecom with a stake of 50.67% of voting shares, to which CJSC Westelcom is an affiliated party.

V. FINANCIAL ACTIVITY

5.1. Revenues

Table No. 5

| Rostelecom’s revenues, including revenues from telecommunications services, thousand rubles | | | | Change in revenues, % | | |
|---|------------|------------|------------|-----------------------|-----------|-----------|
| 1999 | 2000 | 2001 | 2002 | 2000/1999 | 2001/2000 | 2002/2001 |
| 15,207,065 | 16,870,215 | 19,229,815 | 25,408,768 | 110.9% | 114.0% | 132.1% |

5.2. Income breakdown by user category, thousand rubles.

Table No. 6

| | Public | Commercial organizations | State-financed organizations | Total |
|------------------------------------|------------------|--------------------------|------------------------------|-------------------|
| Telephone services (local) | 18,161 | 46,193 | 9,323 | 73,677 |
| Telephone services (long-distance) | 1,747,498 | 6,805,373 | 221,875 | 8,774,746 |
| Telephone services (international) | 2,091,351 | 9,761,930 | 180,836 | 12,034,116 |
| Data transmission | 3,193 | 636,379 | 2,615 | 642,187 |
| Channel leasing | 0 | 2,348,067 | 205,938 | 2,554,005 |
| Other services | 60,530 | 752,447 | 517,060 | 1,330,036 |
| TOTAL: | 3,920,732 | 20,350,389 | 1,137,647 | 25,408,768 |

5.3. Investment in fixed assets

| № | Indicator | Measuring Unit | 1999 | 2000 | 2001 | 2002 |
|--------|---|-----------------|-----------|-----------|-----------|-----------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1 | Value of completed investments in fixed assets over the reporting year, including | thousand rubles | 4,061,826 | 6,627,433 | 2,407,128 | 2,615,695 |
| 1.1 | From owned assets, including | thousand rubles | 3,279,213 | 1,800,604 | 1,362,167 | 1,359,479 |
| 1.1.1. | From profits | thousand rubles | 35,000 | 113,128 | 49,510 | - |

In the reporting year 2002 investment in fixed assets was directed to the following projects: business expansion - 76%, reconstruction and maintenance of infrastructure -24%.

5.4. Subsidiary Companies

During 2002, a major priority for Rostelecom was the program to streamline and focus the Company. This included the disposal of non-core assets to concentrate on adding value to Rostelecom's core activities. In order to strengthen financial controls, all agreements with subsidiaries were reviewed and the number reduced where appropriate.

One example of disposing of non-core assets disposal is the sale of 22% of the ordinary voting shares in OJSC Giprosvyaz, which specializes in scientific research and design. The value of this sale was about US \$ 3 million.

The largest transaction in 2002 was the sale of the Company's 50% stake in STsS Sovintel to the telecommunications holding Golden Telecom. Under the terms of this agreement the Company received US \$ 10 million in cash and US \$ 46 million in the promissory note upon expiration of 90 days from the date of the shares transfer after exchange of the shares, a 15% stake in Golden Telecom, and representation on Golden Telecom's Board of Directors.

During the year Rostelecom also carried out acquisitions to strengthen its core business bases. In October 2002 the Company increased its ownership in CJSC Westelcom to 100% by purchasing a 50% stake from the holding company RTDC for US\$ 15 million. As a result, the Company gained total control over several strategically important assets, including international switching centers in Moscow and St. Petersburg, and interests in international cable systems. These assets have historically formed an integral part of Rostelecom's international telecommunications network and prior to this acquisition, Rostelecom had to pay CJSC Westelcom for use of their systems. The acquisition has therefore enabled the Company to reduce its international traffic transit costs while simultaneously strengthening its competitive position.

In addition, in October 2002 the Company increased its stake in MTs NTT to 60%. MTs NTT is a telecommunications operator concerned with integration of telecommunications technology, the introduction of modern technology, and the development of intelligent telecommunications services for the Company. Increasing its stake in MTs NTT has enabled the Company to strengthen its position on the Moscow market by expanding the range of services it offers.

In December, Rostelecom took part in a capital increase of the Internet operator OJSC RTComm.RU, subsequently raising the Company's stake from 25% to 31%. The value of this transaction amounted to the equivalent of US\$ 400,000. OJSC RTComm.RU is one of the largest players in the highly profitable and rapidly developing Internet access market. At present, OJSC RTComm.RU holds a 30% market share nationwide. Rostelecom owns 31% of OJSC RTComm.RU directly, and an additional 49.8% through its subsidiary RTC-Leasing.

Details of the Company's participation in other organizations which provide telecommunications services, where the Company's holding is at least 10%, and/or the holding exerts significant influence on the Company's financial activity

Table No. 8

| № | Organization | Ownership structure | | Brief details of main business |
|-----|---|--|---|--|
| | | Shareholders/founders | Stake, % | |
| 1. | CJSC Westelcom | OJSC Rostelecom | 100 | Provision communication channels and telecommunications equipment lease, services and processes incoming traffic via international trunk exchanges. |
| 2. | CJSC ROSPAC | 1. OJSC Rostelecom 2. LLC IAS | 90.80 9.20 | Provision of services in data transmission and public telematic services. |
| 3. | LLC RTK-Sibir | 1. OJSC Rostelecom 2. Union Committee for the Regional Centre 17 for Long-Distance Telecommunications and Television | 90.0 10.0 | Provision of telecommunications services pursuant to licenses obtained, data transfer via telecommunications networks, design, construction and operation of cable television systems |
| 4. | CJSC RTK-Internet | 1. OJSC Rostelecom 2. Others | 63.50 36.50 | Provision of telecommunications services. |
| 5. | CJSC Engineering Center | 1. OJSC Rostelecom 2. RF FGUP NIIR | 60.00 40.00 | Creation and development of modern systems for telecommunications and data transfer |
| 6. | CJSC Moscow Center of New Telecommunications Technology | 1. OJSC Rostelecom 2. CJSC NTTs Komset 3. CJSC Trio-service | 60.00 20.00 20.00 | Provision of fixed telecommunications services, organization for users of access to a digital telecommunications network |
| 7. | CJSC Inkom | 1. OJSC Rostelecom 2. Mashinoimpeks 3. Ericsson Business Network 4. Ericsson Nikola Tesla | 54.40 16.70 15.20 13.70 | Provision of long-distance payphone services |
| 8. | CJSC GlobalTel | 1. OJSC Rostelecom 2. Globalstar L. P. | 51.00 49.00 | Provision of local, long-distance and international telecommunications and data transfer services |
| 9. | CJSC Rostelecomport | 1. OJSC Rostelecom 2. OJSC Ust-Luga | 50.00 50.00 | Provision of telecommunications services |
| 10. | CJSC TelecomCentre | 1. OJSC Rostelecom 2. Individuals | 45.00 55.00 | Provision of telecommunications services |
| 11. | CJSC Teleport-TP | 1. OJSC Rostelecom 2. Technocom Ltd 3. LLC Tekhnopark 4. Roscomm, Ltd | 44.00 38.50 7.50 10.00 | Provision of local, long-distance and international communications services in Russia and other countries, including digital telephone, facsimile and data transmission services |
| 12. | OJSC MMTS-9 | 1. OJSC Rostelecom 2. Ministry of Property Relations RF 3. Individuals | 36.86 38.00 25.14 | Provision of long-distance telecommunications services |
| 13. | OJSC RTComm.RU | 1. OJSC Rostelecom 2. OJSC RTC-Leasing 3. OJSC Svyazinvest 4. CJSC KPF Finance 5. Non-Commercial Partnership Center for Telecommunications | 31.10 49.75 0.49 5.30 13.36 | Development of information technology, creation, manufacture and distribution of computer software and hardware for computerized local, corporate and global networks, provision of Internet access. |

| | | Problems Research | | |
|-----|-------------------------------------|---|---|--|
| 14. | LLS Yalta Teleradiocompaniya | 1. OJSC Rostelecom 2. LLC Informtek 3. Municipal Department of Property Management | 30.00 58.00 12.00 | Provision of cable television services |
| 15. | OJSC RTC-Leasing | 1. OJSC Rostelecom 2. NPF Rostelecom-Garantiya 3. Non-Commercial Partnership Center for Telecommunications Problems Research 4. CJSC Severo-Zapadnyy Telekombank 5. LLC KB RIB 6. CJSC Gamma-Invest 7. CJSC KPF-Finance | 27.12 3.03 3.30 18.91 15.93 15.93 15.78 | Leasing of fixed and current assets, investment, sale and purchase of real estate |
| 16. | CJSC Rustel | 1. OJSC Rostelecom 2. IBCS 3. RSPP | 25.00 50.00 25.00 | Creation and provision of networks for telecommunications services |
| 17. | OJSC Moscow Cellular Communications | 1. OJSC Rostelecom 2. OJSC MGTS 3. RTDK USA 4. Telco Overseas Ltd. 5. LLC NefTekKom K 6. CJSC Gamma Kapital | 23.50 23.50 22.00 20.00 8.00 3.00 | Provision of mobile communications networks pursuant to licenses and on the basis of a defined territory consistent with the corresponding licenses |
| 18. | CJSC Telmos | 1. OJSC Rostelecom 2. OJSC MGTS 3. OJSC AFK Sistema | 20.00 40.00 40.00 | Creation and operation of telecommunications networks in Moscow and other regions. Provision of local, long-distance and international telecommunications services in Moscow and other regions |
| 19. | LLC Arkhangelskaya GTS | 1. OJSC Rostelecom 2. OJSC Severo-Zapadnyy Telecom 3. Municipal Council "Archangelsk City" | 17.00 77.00 6.00 | Provision of local telephone services and mobile radio telephone services |
| 20. | Golden Telecom Inc. | 1. OJSC Rostelecom 2. Alpha Group 3. Baring Vostok 4. Capital International 5. GTS 6. Others | 15.00 43.60 7.60 8.80 2.60 22.40 | Provision of the full range of telecommunications services and Internet access |
| 21. | LLC Tver Telecom | 1. OJSC Rostelecom 2. OJSC Tver Region Elektrosvyaz 3. LLC Kosmokom 4. LLC Vialakta-Kom 5. LLC Orbita-Telecom 6. LLC TelVit 7. LLC Renoks | 15.00 26.00 16.00 16.00 19.00 4.00 4.00 | Design and construction of telecommunications networks, operation of paging networks, consultancy work in telecommunications, |
| 22. | CJSC WestBalt Telecom | 1. OJSC Rostelecom 2. OJSC Elektrosvyaz 3. OJSC Baltikom Mobile | 10.00 28.00 62.00 | Digitization of the secondary telecommunications network in Kaliningrad Region. Provision of local, long-distance and international telephone services and data transmission |
| 23. | CJSC Telegross | 1. OJSC Rostelecom 2. CJSC Crosna Scientific and Technical Association 3. CJSC Crosna-Invest | 10.00 80.00 10.00 | Creation in Russia and other countries of space telecommunications to provide international satellite communications, surface telecommunications, etc |

5.5. Major non-commercial organizations in which the Company participates

1. Association of Telecommunications Enterprises in Siberia and the Far East

This was set up as the result of the conversion of the limited liability partnership Association of Telecommunications Enterprises in Siberia and the Far East, and is its legal successor. Members of the Association came together to coordinate their business activities and protect their common property interests. Other members of the Association are joint stock companies – the Elektrosvyaz firms in Siberia and the Far East, and also other telecommunications companies.

2. Association of Telecommunications in the Central Chernozem Region

The Association was registered on 25 January 1998. It concerns itself with coordinating the activities of telecommunications companies, developing the telecommunications networks for operators in its region, problems of investment policy, sourcing technical equipment for the companies in its region, developing and popularizing telecommunications, and so on. Other members of the Association are OJSC Belsvyaz, OJSC Voronezhsvyazinform, OJSC Lipetskelektrosvyaz, OJSC Kursk and Orlovsk Region Elektrosvyaz, OJSC Tambovsk Elektrosvyaz and OJSC Svyazstroj-1.

3. Association for Operators of the Iskra Business Service Network

This Association was set up in 1998 pursuant to a decision of the State Telecommunications Commission under the Ministry of Telecommunications. It is a non-commercial organization founded by legal entities to coordinate business activity so as to help its members to achieve their objectives as set out in the Charter.

The following are the Association's main aims:

- Promoting the development of the RF Linked Telecommunications Network (RF VSS);
- Promoting development of the Russian market for telecommunications services, researching client needs, and publicizing the potential and advantages of the Iskra Business Service Network;
- Promoting the development of scientific, technical, economic and organizational foundations of Iskra;
- On the basis of a common technical policy, developing recommendations for introduction of modern technology, expanding the range of services provided with the simultaneous improvement in their quality, and disseminating the experience of building the Iskra network throughout Russia.

Other members of the Association are joint stock companies – Elektrosvyaz companies from various Russian regions, and also other telecommunications companies.

4. Association of Telecommunications Companies of the Volga Region

The Association was registered on 20 March 2000 by the administration of Leninsk Region in the town of Penza. It was established to coordinate the activity of telecommunications companies in the region by having a common policy for development of the telecommunications systems and facilities, providing assistance to its members, and so on. Other members of the Association are the OJSC Svyazinform companies of Astrakhan Region, Penza Region, Samara Region, the Republic of Mordovia, the Chuvash Republic, OJSC Volgogradelektrosvyaz, OJSC Martelcom of the Marii-El Republic, OJSC Saratovelektrosvyaz, GUP UES Tattelcom, and OJSC Ulyanovsk Region Elektrosvyaz.

5. Non-Commercial Partnership Center for Telecommunications Problems Research

This non-commercial partnership was registered on 23 April 2001. Its main objective is to research the problems in developing the telecommunications sector, provision to organizations of consultancy or other services on various aspects of the business. Other members of the partnership include OJSC Southern Telecommunications Company, OJSC Central Telecommunications Company, OJSC VolgaTelecom, OJSC SibirTelecom, OJSC Far East Telecommunications Company, OJSC Uralsvyazinform, and OJSC Severo-Zapadny Telecom.

6. Non-Commercial Partnership Telecommunications Forum

Telecommunications Forum, a non-commercial organization, was founded in 1994. It was established as a club for participants on the Russian telecommunications market, which could resolve problems in strengthening the strategic partnership of its members. Its main objectives are comprehensive support for the process of setting up an information society in Russia, promoting development of the telecommunications

infrastructure, encouragement of cooperation and dialog between players on the telecommunications market and the Ministry of Telecommunications and Informatisation. In February 2001 after its re-registration the organization was renamed Telecommunications Forum. Other members of the partnership are Siemens, Ericsson Corporation, FGUP Kosmicheskaya Svyaz, Vimpelcom, Svyazinvest, CJSC Lucent Technologies, Nokia, Sumitomo Corporation, CJSC Sonik Duo, EDN Sovintel, OJSC Moscow Cellular Communications, and also the Ministry for Telecommunications and Informatisation, and other companies.

5.6. Dynamics of main indicators in network development

Table No 9

| № | Indicator | Units | 1999 | 2000 | 2001 | 2002 |
|----------|---|------------------------|-------------|-------------|-------------|-------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. | Increase in total length: long-distance interzone channels, | million channels/km | 192.7 | 40.25 | 40.4 | 93.39 |
| | including digital channels | million channels/km | 192.7 | 40.25 | 39.96 | 93.39 |
| 2. | Total increase in number of main telephone sets including | thousand items | 1.083 | 5.999 | 0.328 | 0.07 |
| | - municipal telephone networks; | thousand items | 1.083 | 5.999 | 0.328 | 0.07 |
| | - rural area telephone networks | thousand items | - | - | - | - |
| 3. | Total increase in outgoing automatic channels in ATE's, | channels | 12,157 | 11,019 | 2,136 | 1'995 |
| | Including innerzone telecommunications | channels | 154 | 2 944 | 330 | - |

5.7. Dynamics of Financial Indicators

Table No. 10

| Indicator | 1999 | 2000 | 2001 | 2002 |
|---------------------------------------|-------------|-------------|-------------|-------------|
| 1. Book Profit Yield | 23.11% | 17.99% | 30.0% | 29.9 % |
| 2. Autonomy ratio | 0.36 | 0.35 | 0.44 | 0.47 |
| 3. Absolute liquidity ratio | 0.38 | 0.13 | 0.24 | 0.40 |
| 4. Current liquidity ratio | 2.18 | 1.40 | 1.23 | 1.29 |
| 5. Operating assets sufficiency ratio | -1.20 | -1.17 | -0.54 | -0.20 |

5.8. Dynamics of Social indicators

Table No. 11

| Indicator (form 1-r) | Units | 1999 | 2000 | 2001 | 2002 |
|---|--------------------|-------------|-------------|-------------|-------------|
| 1. Average number of employees (excluding part-time workers and outside workers) | thousand | 36.0 | 36.0 | 35.2 | 31.1 |
| 2. Average monthly basic salary per employee | thousand rubles | 3.1 | 4.1 | 4.7 | 6.4 |
| 3. Average monthly revenues per employee | thousand rubles | 3.2 | 4.2 | 4.8 | 6.6 |

5.9. Dynamics of Efficiency Indicators

Table No. 12

| № | Indicator | Units | 1999 | 2000 | 2001 | 2002 |
|----|------------------------------|-------------------------|-------|------|-------|---------|
| 1. | Profit per employee | thousand rubles | 100.9 | 66.0 | 124.8 | 170.132 |
| 2. | Number of lines per employee | | - | - | - | - |
| 3. | Production cost per unit | ruble/100 rubles earned | 57.8 | 72.0 | 70.8 | 69.6 |
| 4. | Share of salaries in revenue | % | 8.9 | 9.5 | 9.9 | 9.4 |

5.10. Company's Net Assets at 31.12.2002

Table No. 13

| | |
|---|------------|
| 1. Amount of net assets (thousand rubles) | 19,607,172 |
| 2. Charter capital (thousand rubles) | 2,429 |
| 3. Reserve fund (thousand rubles) | 364 |
| 4. Ratio of net assets to charter capital (line 1/line 2) | 8,072 |
| 5. Ratio of net assets to charter capital + Reserve Fund (line 1/(line 2 + line 3)) | 7,020 |

5.11. Dynamics of Dividend Payments per Share

Table No. 14

| Type of share | 1999 | | 2000 | | 2001 | | 2002* | |
|-------------------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | % of net profits | sum (rubles) |
| Ordinary | 6.1 | 0.1645 | 11.6 | 0.1634 | 7 | 0.2144961 | 12.8 | 0.54327 |
| Preferred shares Type A | 10 | 0.8093 | 10 | 0.4243 | 10 | 0.9195237 | 10 | 1.27472 |

* This is the figure recommended by the Board of Directors, and it will be voted on at the AGM for 2002.

VI. USE OF THE COMPANY'S UNDISTRIBUTED PROFITS

6.1. Report on the use of the Company's undistributed profits for 2002

Table No. 15

| №№ | Indicator | Units | 2002 | |
|---|---|-----------------|-----------------------------------|-----------|
| | | | Approved by the Shareholders' AGM | Report |
| 1 | 2 | 3 | 4 | 5 |
| 1. | Undistributed profits - Total | thousand rubles | 2,372,818 | 2,372,818 |
| Principal uses of distributable profits: | | | | |
| 2. | To cover: | | | |
| a) | Losses from previous years | thousand rubles | 1,047,048 | 1,047,048 |
| b) | Losses in the reporting year | thousand rubles | - | - |
| 3. | Allocated to the Reserve Fund, as % of net profits as % of total distributable profits | thousand rubles | 364 | 364 |
| | | % | 0.016 | 0.016 |
| | | % | 0.015 | 0.015 |
| 4. | Allocated to form the employees' special share participation fund (if provided for under the foundation documents), as % of total distributable profits | thousand rubles | - | - |
| | | % | - | - |
| 5. | For dividend payments as % of net profit as % of total distributable profits | thousand rubles | 379,592 | 379,592 |
| | | % | 17.00 | 17.00 |
| | | % | 16.00 | 16.00 |
| 6. | Funds used as a security for production development (including share participation) – total as % of total distributable profits Including: - share participation | thousand rubles | - | - |
| | | | - | - |
| | | % | | |
| | | thousand rubles | - | - |
| 7. | Balance of undistributed profits | thousand rubles | 945,814 | 945,814 |

6.2. Principal Uses of Undistributed Net Profits in 2003

Table No. 16

| №№ | Indicator | Units | 2003 |
|----|--|---------------------------|-----------------------------|
| | | | Plan |
| 1 | 2 | 3 | 4 |
| 1. | Undistributed profits - Total | thousand rubles | 4,041,230* |
| 2. | Principal uses of undistributed profits: | | |
| a) | To cover losses for previous years | thousand rubles | - |
| b) | To cover losses in the reporting year | thousand rubles | - |
| c) | Allocated to the reserve fund: as % of net profits as % of total distributable profits | thousand rubles % % | - - - |
| d) | Allocated to form the employees' special share participation fund (if provided for under the foundation documents), as % of total distributable profits | thousand rubles % | - - |
| e) | For dividend payments as % of net profit as % of total distributable profits | thousand rubles % % | 705,754.8 22.79 17.46 |
| f) | To increase share capital comprising undistributed profits: as % of net profits as % total distributable profits | thousand rubles % | 3,335,668 82.54 |

* 4,041,230 = 3,095,416 (line 470 Form 1) + 945,814 (balance of undistributed profits in materials for the Shareholders' AGM)

NOTE: indicator 1 column 4 reflects data obtained by aggregating undistributed profits in the reporting year (line y 470 Form 1 of the balance sheet) and undistributed profits from previous years subject to distribution in 2003, to be decided by the Company on the basis of information on the basis of the accounting data.

Notes:

| №№ | Indicator | Units | On the Balance sheet for 2002 |
|----|--|-----------------|-------------------------------|
| 1. | Overall losses - total (line 465 + line 475 Form 1 of the balance sheet) | thousand rubles | - |
| | Including: | | |
| A) | - uncovered losses from previous years | thousand rubles | - |
| b) | - uncovered losses in the reporting year | thousand rubles | - |
| | Proposed sources for covering the above losses - total | thousand rubles | - |
| | Including: | | |
| a) | Undistributed profits from previous years arising from re-valuation of reappraised fixed assets withdrawn from use, such revaluation being transferred to additional capital | thousand rubles | - |
| b) | Reserve fund | thousand rubles | - |
| c) | Undistributed profits for the reporting year 2002* | thousand rubles | - |

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS OF OAO ROSTELECOM

(Translation from Statutory Auditor's Report expressed in the Russian Language)

To the shareholders of OAO Rostelecom

DETAILS OF THE AUDITING FIRM

Name: CLOSED JOINT STOCK COMPANY ERNST & YOUNG VNESHAUDIT

Address: 20/12 Podсосensky Pereulok, building 1-1A, Moscow, 105062 Russia.

State registration: certificate №033.468 series LO-011903, issued by the Moscow Registration Chamber on March 23, 2000.

License to engage in auditing activity, including general and bank audit, insurance audit, and audit of funds and stock exchanges, No. E003246, approved by Ministry of Finance RF order No.9 dated January 17, 2003, for the term of five years.

DETAILS OF THE AUDITED ENTITY

Name: OAO Rostelecom

Address: 5 Delegatskaya ul., Moscow, 127091 Russia.

State registration: certificate №021.833 series VZ-008630, issued by the Moscow Registration Chamber on September 23, 1993.

Licenses to engage in licensed activities:

| Type of activity | License number | Issued by | Date of issue | License term |
|--|----------------|--|---------------|--------------|
| Intercity and international telecommunication services | No. 8777 | State Committee of the Russian Federation on communication and informatization | 17.10.1997 | 01.01.2004 |
| Local telecommunication services | No. 8701 | State Committee of the Russian Federation on communication and informatization | 17.10.1997 | 01.11.2005 |
| Telematic services | No. 3226 | Ministry of Communications of the Russian Federation | 15.05.1997 | 15.05.2007 |

Besides licenses listed above, OAO Rostelecom has six licenses to provide various types of telecommunication services.

1. We have audited the accompanying financial statements of OAO Rostelecom for the period from January 1 through December 31, 2002 which are comprised of the balance sheet, the statement of income, the statement of changes in shareholders' equity, the statement of cash flows, appendix to the balance sheet and the explanatory note to the financial statements. The preparation and presentation of these financial statements are the responsibility of the management of OAO Rostelecom. Our responsibility is to express an opinion on the fairness, in all material respects, of these statements and on compliance of accounting procedures with the legislation of the Russian Federation based on our audit.
2. Financial statements of OAO Rostelecom for the periods prior to 2002 were audited by other auditing firms. Opinion of other auditors on the financial statements of OAO Rostelecom for the year ended 31 December 2001 was expressed in the auditor's report dated 20 March 2002 which contained qualifications with respect to the impossibility to obtain evidence of compliance of the accounting policy used to reflect transactions related to the foreign economic activity of the company with the economic substance of such transactions, and with respect to unsupported amounts representing expenditures incurred in years prior to 2001 included in the capital

construction balance. Scope of work performed by us did not include an audit of the financial statements of OAO Rostelecom for the periods, prior to the year ended 31 December 2002.

3. We conducted our audit in accordance with Federal Law Concerning Auditing Activity, approved Federal Rules (Standards) on Auditing, the Rules (Standards) for Auditing Activities, as approved by the Committee on Auditing Activity attached to the President of the Russian Federation, and International Standards on Auditing where they do not contradict the above Rules.
4. The audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit was performed on a selective basis and included an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements concerning the financial and business operations of the audited entity; an assessment of the accounting principles and methods, the rules used in the preparation of the financial statements, and significant estimates derived by the management of the audited entity; as well as the evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion on the fairness of these financial statements and on compliance of accounting procedures with the legislation of the Russian Federation.
5. As disclosed in p.2.12 of the accompanying Explanatory note to the financial statements of OAO Rostelecom for the year ended 31 December 2002, in 2002 OAO Rostelecom introduced changes to its accounting policy related to the recognition of settlements with the foreign telecommunication administrations for international telecommunication services provided and consumed in connection with the development by OAO Rostelecom of new method of accounting for such operations aimed to increase the accuracy of accounting for and reporting of such transactions. Effect of the consequences of the change in accounting policy on the periods prior to the reporting period could not be assessed with adequate level of reliability. Consequently, we are not able to express our opinion with respect to the prior years profits identified in the current year reflected as part of non-operating income, prior years losses identified in the current year reflected as part of non-operating expenses, and the corresponding tax effects related to the prior periods' operations.
6. In our opinion, except for the adjustments, which might be considered necessary could all effects of the change in accounting policy in respect of the prior periods be assessed, as discussed in the preceding paragraph, the accounting procedures at OAO Rostelecom insofar as they relate to the preparation of financial statements in 2002 complied with the requirements of Federal Law Concerning Accounting No. 129-FZ of November 21, 1996, and the aforementioned financial statements have been prepared in accordance with the said Law to ensure the fair reflection, in all material respects, of the financial position of OAO Rostelecom as of December 31, 2002 and its financial results for the period from January 1 through December 31, 2002.
7. The accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Russia. Accordingly, the accompanying financial statements are not designed for those who are not informed about accounting principles, procedures and practices in Russia.

28 March 2003

Balashov Vadim Alexandrovich
Partner

Golkova Tatiana Georgievna
Auditor's qualification certificate No. 024831 (general audit),
validity: prolonged on 31 January 2002 without limitation of duration

REPORT
Of the Auditing Commission on the Results of a Verification of
Rostelecom's Annual Accounts;
On the results of a Verification of
Rostelecom's Financial Activity over 2002;
On the Results of a Verification of the Accounts for 2002;
And on the Accuracy of the Data Contained in the Annual Report and Financial Statements for 2002

31 March 2003

г. Moscow

Based on the Regulation on the Auditing Commission of OJSC Rostelecom, its Auditing Commission comprising:

- Irina V. Prokofieva
- Konstantin V. Belyaev
- Irina A. Smirnova

Conducted a review of the annual accounts for 2002.

The review was carried out from 17 to 21 March 2003 in the following areas:

- Accuracy of the data contained in the reports and other financial documents for 2002;
- Procedure for keeping accounts and presenting financial statements for 2002;
- Procedure for recording in the accounts tax operations relating to international telecommunications services.

Over the accounting year the Auditing Commission performed four reviews (Rostelecom's General Directorate and its subsidiary TTsMS-15 in Khabarovsk). The following persons were co-opted onto the Commission to assist with these reviews: K. V. Frolov – leading specialist in the Department of Internal Audit and Economic Analysis at OJSC Svyazinvest, and Ye. A. Pavlova, leading specialist in the Department of Methodology at OJSC Svyazinvest.

General Information

Full official name: Open Joint Stock Company Rostelecom Long-Distance and International Telecommunications Company.

Legal address and location: 5 Delegatskaya Ulitsa, Moscow, 127091, Russian Federation.
Postal address: 14 1st Ulitsa Tverskaya-Yamskaya, Moscow, 125047.

Company's state registration date: 23 September 1993.

Registration number: 021.833.

Those persons responsible for the Company's financial activity during the period under review were:

- Sergey I. Kuznetsov - General Director
- Alexander A. Lutsky - Chief Accountant

The Company's supreme management body is the Shareholders' general meeting, and between meetings it is the Board of Directors headed by its President. Rostelecom's executive body is its Management Board headed by the General Director.

This review established the following facts:

In the course of the review it was determined that in conducting its financial activity the Company is guided by the provisions of the RF Civil Code, the Tax Code and other legislative acts.

The accounts were prepared on the basis of the requirements of Federal Law № 129-FZ dated 21 November 1996 "Regulation on Accounting and Reporting" (as amended), Regulations on the keeping of accounting approved by Ministry of Finance Order No 34n dated 29 July 1998, , On the Approval of the Accounting Regulations on Accounting in an Organization" dated 06 July 1999 (PBU 4/99) and Order No

60of the Ministry of Finance. This audit review included verification on a sampling basis of confirmatory numerical data and the explanatory notes contained in the accounts.

As indicated in item 2.12 of the appendix Explanatory Notes to Rostelecom's accounts for 2002, the Company has changed its accounting policy with regard to settlements with foreign administrators for provision and use of international telecommunications services. This was done because of Rostelecom's efforts to improve the accuracy in the presentation of facts concerning its activity in the accounts and in the Company. An assessment in money terms of the consequences of this change in accounting policy in relation to previous years was not made with sufficient accuracy. Because of this, we were not able to express an opinion in relation to profits and losses in previous years, which came to light during the accounting year, nor on the tax implications concerning business operations in previous periods.

Apart from the above reservations, the Auditing Commission have not found any significant violations of accepted accounting and financial reporting principles, which could materially affect reliability of the financial statements

Rostelecom's accounts make it possible to have full and objective information about the financial processes and results of its business such as is necessary for effective management and governance, and also for their use by investors, suppliers, buyers and creditors, and by the tax, finance and banking authorities and other interested organizations and parties.

Conclusion

In the opinion of the members of the Auditing Commission, apart from the reservations already mentioned, the accounts were prepared so as to reflect the assets and liabilities of the Company at 31.12.2002 and its financial results for 2002, on the basis of the requirements of the regulatory acts of the Ministry of Finance (Orders No. 34H dated 29.07 98, No. 43H dated 6.07.99, and No. 60n dated 28.06.2000, all as amended).

Chairwoman of the Auditing Commission
Members of the Auditing Commission

I. V. Prokofieva

K. V. Belyaev

Secretary of the Auditing Commission

I. A. Smirnova

MAIN INDICATORS IN ROSTELECOM'S ANNUAL ACCOUNTS

Main indicators on the balance sheet for 2002

Table No. 17

| Indicator | Entry Code | Start of Accounting period | End of accounting period |
|--|-------------------|-----------------------------------|---------------------------------|
| 1 | 2 | 3 | 4 |
| I. NON-OPERATING ASSETS | | | |
| Intangible assets | 110 | 23 | 21 |
| Fixed assets | 120 | 19,550,604 | 17,143,830 |
| Incomplete construction | 130 | 2,950,952 | 2,863,205 |
| Profitable investments in tangible assets | 135 | - | - |
| Long-term financial investments | 140 | 1,053,469 | 2,517,331 |
| Other non-operating assets | 150 | - | 385,225 |
| Total for Section I | 190 | 23,555,048 | 22,909,612 |
| ASSETS | Entry Code | Start of accounting period | End of accounting period |
| 1 | 2 | 3 | 4 |
| II. OPERATING ASSETS | | | |
| Inventory | 210 | 1,167,248 | 690,868 |
| Value-added tax on acquired assets | 220 | 2,337,482 | 1,988,908 |
| Accounts receivable (payments expected more than 12 months after the reporting date) | 230 | 834,879 | 533,896 |
| Accounts receivable (payments expected within 12 months of the reporting date) | 240 | 6,415,733 | 9,274,870 |
| Short-term financial investments | 250 | 1,129,842 | 4,259,058 |
| Monetary assets | 260 | 1,534,000 | 1,291,917 |
| Other operating assets | 270 | - | - |
| Total for Section II | 290 | 13,419,184 | 18,039,517 |
| BALANCE (sum of entries 190 + 290) | 300 | 36,974,232 | 40,949,129 |
| LIABILITIES | Entry code | Start of accounting period | End of accounting period |
| 1 | 2 | 3 | 4 |
| III. CAPITAL AND RESERVES | 410 | 2,429 | 2,429 |
| Charter capital | | | |
| Added capital | 420 | 12,495,346 | 12,496,708 |
| Reserve capital | 430 | 364 | 364 |
| Social facilities fund | 440 | - | - |
| Retained earnings of the previous years | 460 | 4,848,241 | 3,701,639 |
| Uncovered losses form previous years | 465 | 1,047,412 | - |
| Undistributed profits form the accounting year | 470 | x | 3,095,416 |
| Uncovered losses from the accounting year | 475 | x | - |
| Total for Section III | 490 | 16,298,968 | 19,296,556 |
| IV. LONG-TERM OBLIGATIONS | | | |
| Loans and credits | 510 | 1,542,528 | 847,687 |
| Other long-term obligations | 520 | 7,796,449 | 6,444,195 |
| Total for Section IV | 590 | 9,338,977 | 7,291,882 |
| V. SHORT-TERM OBLIGATIONS | | | |
| Loans and credits | 610 | 5,319,106 | 3,667,780 |
| Accounts payable | 620 | 5,586,754 | 10,303,024 |
| Overdue income payments to members/founders | 630 | 20,492 | 47,593 |
| Future income | 640 | 409,935 | 342,294 |
| Reserves against future expenditure | 650 | - | - |

| | | | |
|---|-----|------------|------------|
| Other short-term obligations | 660 | - | - |
| Total for Section V | 690 | 11,336,287 | 14,360,691 |
| BALANCE (sum of entries 490 + 590 + 690) | 700 | 36,974,232 | 40,949,129 |

Main Indicators in the Profit and Loss Account for 2002

Table No. 18

| Indicator | Entry Code | Over the accounting period | Over the same period last year |
|---|------------|----------------------------|--------------------------------|
| 1 | 2 | 3 | 4 |
| I. Income from and expenditure on normal business | | | |
| Net earnings from sale of goods, products, work, services (less VAT, excise taxes and other mandatory payments) | 010 | 25,408,768 | 19,229,816 |
| Production costs of goods, products, work and services | 020 | 15,699,713 | 11,901,700 |
| Gross profit | 029 | 9,709,055 | 7,328,116 |
| Commercial expenditure | 030 | 70,640 | 170,262 |
| Managerial expenditure | 040 | 1,918,286 | 1,545,675 |
| Sales Profits (losses) (entries 010 - 020 - 030 - 040) | 050 | 7,720,129 | 5,612,179 |
| II. Operating income and expenditure | | | |
| Interest received | 060 | 239,673 | 92,679 |
| Interest paid | 070 | 354,218 | 676,725 |
| Income from participation in other organizations | 080 | 88,408 | 82,824 |
| Other operating income | 090 | 11,497,186 | 4,346,343 |
| Other operating expenditure | 100 | 11,029,909 | 5,182,137 |
| III. Income and expenditure unrelated to sales | | | |
| Income unrelated to sales | 120 | 12,111,179 | 1,135,317 |
| Expenditure unrelated to sales | 130 | 14,986,103 | 1,304,857 |
| Profits (losses) before tax (entries 050 + 060 - 070 + 080 + 090 - 100 + 120 - 130) | 140 | 5,286,345 | 4,105,623 |
| Profits tax and other similar mandatory payments | 150 | 2,186,701 | 1,871,390 |
| Profits (losses) from normal business | 160 | 3,099,644 | 2,234,233 |
| IV. Extraordinary income and expenditure | | | |
| Extraordinary income | 170 | - | - |
| Extraordinary expenditure | 180 | 4,228 | 1,340 |
| Net profits (undistributed profits (losses) for the accounting period) (entries 160 + 170 - 180) | 190 | 3,095,416 | 2,232,893 |

S. I. Kuznetsov

General Director

V. I. Androsik

**Deputy General Director
and Finance Director**

A. A. Lutsky

Chief Accountant