OAO “North-West Telecom”

Consolidated Financial Statements as of December 31, 2002

with Independent Auditors’ Report

OAO “North-West Telecom”

Consolidated Financial Statements

Year ended December 31, 2002

Contents

Independent Auditors' Report

To the Shareholders and Board of Directors
of OAO "North-West Telecom"

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

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

3. As described in Notes 2 and 20, the Company has not determined and presented its assets and liabilities existing under defined benefits plans in accordance with International Accounting Standard ("IAS") 19 "Employee Benefits". We were not able to quantify the adjustments, if any, to the financial statements.

4. As described in Notes 2 and 8, the Company's accounting records relating to property and equipment are not designed to support their presentation in accordance with IAS 16, "Property, Plant and Equipment", IAS 29, "Financial Reporting in Hyperinflationary Economies" and IAS 36, "Impairment of Assets". As such, certain estimates were made by management to present property and equipment in the accompanying financial statements. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the adjustments, if any, which might have been determined to be necessary had additional evidence been available to better analyze the assumptions and estimates made by management.

5. As a result of the matters described in paragraphs 3 and 4 above, such adjustments, if any, could materially affect (i) property and equipment, equipment contributions, assets and liabilities under defined benefits plans, deferred income tax liability, and retained earnings as of December 31, 2002, (ii) depreciation expense, other benefits expense, income tax expense and net income for the year ended December 31, 2002, and (iii) related disclosures.

6. In our opinion, except for the effects on the financial statements of such adjustments, if any, from the matters referred to in paragraphs 3 and 4 above, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO "North-West Telecom" as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards.

7. As described in Note 1, the Company was the subject of a reorganization that was approved by the shareholders on November 28, 2001. The Company has accounted for the merger based on the principles of uniting of interests as described in IAS 22, "Business Combinations". In applying this method, the Company has reflected amounts in the financial statements as if the entities had been combined from January 1, 2002, the earliest period presented.

July 31, 2003

OAO “North-West Telecom”

Consolidated Balance Sheet

As of December 31, 2002

(In thousands of Rubles in terms of purchasing power of the Ruble at December 31, 2002)

	Notes	2002
ASSETS		
Non-current assets		
Property and equipment, net	8	16,217,463
Intangible assets, net	9	101,860
Investments in associated companies, net	11	246,160
Other financial investments, net	11	698,638
Advances to suppliers of equipment		115,210
Other non-current assets		27,509
Total non-current assets		17,406,840
Current assets		
Inventories, net	12	225,931
Accounts receivable, net	13	999,942
Other current assets	14	681,281
Cash and cash equivalents	15	347,176
Total current assets		2,254,330
TOTAL ASSETS		19,661,170
SHAREHOLDERS’ EQUITY AND LIABILITIES		
Shareholders’ equity		
Preference shares	16	202,023
Ordinary shares	16	735,917
Inflation impact on share capital		1,724,089
Additional paid-in capital and retained earnings		10,982,343
Total shareholders’ equity		13,644,372
Commitments and contingencies	21	-
Minority interest		6,716
Non-current liabilities		
Deferred income taxes	5	1,399,183
Long-term borrowings, net of current portion	17	1,125,727
Obligations under finance leases, net of current portion	18	132,316
Equipment contributions		221,994
Other non-current liabilities		23,692
Total non-current liabilities		2,902,912
Current liabilities		
Current portion of long-term borrowings	17	793,162
Current portion of obligations under finance leases	18	131,509
Short-term borrowings	17	207,901
Accounts payable and accrued expenses	19, 22	1,331,962
Taxes payable and social security payables	19	592,042
Dividends payable		50,594
Total current liabilities		3,107,170
TOTAL SHAREHOLDERS’ EQUITY AND LIABILITIES		19,661,170

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

OAO “North-West Telecom”

Consolidated Statement of Operations

For the year ended December 31, 2002

(In thousands of Rubles in terms of purchasing power of the Ruble at December 31, 2002)

	Notes	2002
Revenues	4	10,790,609
Operating expenses		
Wages, salaries, other benefits and payroll taxes		3,252,647
Interconnect charges		1,875,615
Depreciation and amortization		1,733,986
Materials, repairs and maintenance, utilities		1,167,841
Taxes other than on income		346,560
Loss on disposals of property and equipment		162,969
Provision for doubtful accounts		108,440
Other operating expenses	4	954,104
		9,602,162
Operating income		1,188,447
Foreign exchange loss, net		(189,497)
Interest expense, net		(260,077)
Monetary gain, net		129,348
Other expenses, net	4	(21,976)
Income before provision for income taxes and minority interest		846,245
Income tax expense	5	362,113
Income before provision for minority interest		484,132
Minority interest		(1,260)
Net income		482,872
Preferred dividends	7	(62,610)
Net income available to ordinary shareholders		420,262
Basic and diluted earnings per ordinary share, Rubles	6	0.57

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

OAO “North-West Telecom”

Consolidated Statement of Cash Flows

For the year ended December 31, 2002

(In thousands of Rubles in terms of purchasing power of the Ruble at December 31,2002)

	2002
Cash flows from operating activities	
Income before provision for income taxes and minority interest	**846,245**
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	**1,733,986**
Net finance cost	**260,077**
Foreign exchange loss	**189,497**
Loss on disposal of property and equipment	**162,969**
Provision for doubtful accounts	**108,440**
Income from associates	**2,885**
Gain on disposal of investments	**(26,719)**
Monetary gain	**(129,348)**
Changes in operating assets and liabilities:	
Inventories	**(13,841)**
Accounts receivable	**(317,095)**
Other current assets	**(278,646)**
Accounts payable and accrued expenses	**896,602**
Taxes payable and social security payables	**(424,963)**
Cash generated from operations	**3,010,089**
Interest paid	**(214,688)**
Income tax paid	**(365,888)**
Net cash provided by operating activities	**2,429,513**
Cash flows from investing activities	
Capital expenditures	**(2,206,218)**
Proceeds from sale of property and equipment	**70,535**
Other	**20,060**
Net cash used in investing activities	**(2,115,623)**
Cash flows from financing activities	
Proceeds from long-term borrowings	**811,677**
Repayments of long-term borrowings	**(693,340)**
Proceeds from short-term borrowings	**1,125,682**
Repayments of short-term borrowings	**(1,157,008)**
Payment of finance lease liability	**(118,963)**
Dividends paid	**(105,988)**
Net cash used in financing activities	**(137,940)**
Effect of hyperinflation on cash and cash equivalents	**(42,407)**
Net increase in cash and cash equivalents	**133,543**
Cash and cash equivalents as of December 31, 2001	**213,633**
Cash and cash equivalents as of December 31, 2002	**347,176**

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

	2002
Supplementary information:	
Non-cash transactions:	
Equipment acquired on finance lease terms	**223,764**
Offsets of receivables and payables and barter transactions	**35,020**
Equipment received free of charge	**7,970**

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

OAO "North-West Telecom"
Consolidated Statement of Shareholders' Equity
For the year ended December 31, 2002

(In thousands of Rubles in terms of purchasing power of the Ruble at December 31, 2002, except per share data)

	Ordinary shares, par value 1 Ruble		**Preference shares, par value 1 Ruble**				
	Shares	**Amount**	**Shares**	**Amount**	**Inflation impact on share capital**	**Additional paid-in capital and retained earnings**	**Total**
Balance as of December 31, 2001	735,917,222	735,917	202,022,788	202,023	1,724,089	10,633,240	13,295,269
Net income	**-**	**-**	**-**	**-**	**-**	**482,872**	**482,872**
Dividends declared	**-**	**-**	**-**	**-**	**-**	**(133,769)**	**(133,769)**
Balance as of December 31, 2002	**735,917,222**	**735,917**	**202,022,788**	**202,023**	**1,724,089**	**10,982,343**	**13,644,372**

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

(Amounts stated in thousands of Rubles in terms of purchasing power of the Ruble at December 31, 2002, except per share data or unless otherwise noted)

1. Corporate Information

Authorization of Accounts

The consolidated financial statements of OAO "North-West Telecom" (hereafter referred to as "the Company", or "NWT"), its subsidiaries and associated companies for the year ended December 31, 2002 were authorized for issue by the Company's General Director on July 31, 2003.

The Company's Business

NWT is the largest wire-line services provider in the North-West Federal District of Russia. The Company's main activities are conducted on the territory of St. Petersburg and generate approximately 50% of revenues. The Company is an open joint stock company incorporated in the Russian Federation.

The principal business of NWT is providing fixed line local and long-distance telecommunication services to individuals, companies and governmental organizations. NWT also provides other kinds of telecommunication and telematic services. The Company leases communications and Internet channels. NWT has all required licenses to provide the above services and reasonable expectations that the licenses will be renewed.

The Company's management considers that the Company operates in one geographical and business segment, and evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Company as a whole.

The Company's head office is located at Bolshaya Morskaya Street 26, St. Petersburg, Russia. The average number of employees of the Company during 2002 was 30,455 persons.

NWT is the principal successor to the state-owned enterprise, originally the Leningrad City Telephone Network. The Company was privatised on May 6, 1993, assuming the assets and liabilities of the former state-owned enterprise.

Open joint-stock company Svyazinvest, the national telecommunications holding company controlled by the Government of the Russian Federation, owns 51% of the Company's common stock. Svyazinvest is a state-owned holding that controls the majority of wire line service providers in Russia as well as some other telecommunication and related assets.

1. Corporate Information (continued)

Merger with Other Operators Controlled by Svyazinvest

The merger was aimed at establishing a single fixed line telecommunication provider in the North-West Federal District of Russia.

On November 28, 2001 the shareholders of the Company approved the merger of NWT with eight telecommunication operators in the North-West Federal District of Russia, also controlled by Svyazinvest.

Additional ordinary and preference shares of the Company were issued and exchanged for 100% of the outstanding shares of the regional enterprises as follows:

Regional Enterprise	Shares issued by the Company Ordinary	Shares issued by the Company Preference	Exchange Ratio
OAO "Artelecom", Arkhangelsk	54,997,606	18,333,163	0.420
OAO "Electrosvyaz", Pskov	15,610,781	5,203,638	1.610
OAO "Electrosvyaz", Kaliningrad	38,636,440	12,878,823	7.110
OAO "Electrosvyaz", Karelia	35,779,115	11,926,568	0.145
OAO "Electrosvyaz", Vologda	16,660,997	5,553,754	2.345
OAO "Novgorodtelecom", Velikiy Novgorod	23,455,458	7,790,694	229.750
OAO "Cherepovetselectrosvyaz", Cherepovets	15,495,009	5,165,031	53.525
OAO "Murmanelectrosvyaz", Murmansk	62,224,850	20,730,266	2.000
Total	**262,860,256**	**87,581,937**	

The merger was completed on October 31, 2002, after the necessary approvals were received from the Federal Securities Commission ("FSC"), and the Company completed the conversion of shares in the above operators that were folded into one legal entity. These entities were merged into the Company and have become its regional branches.

Transaction costs related to the merger were 137,425 thousand rubles and were expensed (of which 11,545 thousand rubles in 2002, and 125,880 thousand rubles in prior years).

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

1. Corporate Information (continued)

Merger with Other Operators Controlled by Svyazinvest (continued)

Based on the requirements IAS 22, the following table summarizes total assets, liabilities, revenue and pre-tax income (loss) for each of the regional operators for the year ended December 31, 2002 (the year in which the reorganization had been completed):

	Total assets	Total liabilities	Revenues	Pre-tax Income (loss)
OAO “North-West Telecom”	9,183,836	2,710,825	5,204,925	549,646
OAO “Artelecom”, Arkhangelsk	2,235,890	905,868	1,179,608	101,415
OAO “Electrosvyaz”, Pskov	640,875	71,491	448,956	20,599
OAO “Electrosvyaz”, Kaliningrad	1,044,759	284,129	721,406	(4,464)
OAO “Electrosvyaz”, Karelia	1,540,551	499,071	704,800	(43,066)
OAO “Electrosvyaz”, Vologda	1,042,921	243,625	559,079	37,563
OAO “Novgorodtelecom”	709,404	151,121	496,567	111,760
OAO “Cherepovetselectrosvyaz”	562,315	120,138	360,691	50,341
OAO “Murmanelectrosvyaz”	2,735,614	913,029	1,214,239	(105,031)
	19,696,165	5,899,297	10,890,271	718,762
Eliminations and other adjustments	(34,995)	110,785	(99,662)	127,483
Total	**19,661,170**	**6,010,082**	**10,790,609**	**846,245**

Before the restructuring on October 31, 2002, the businesses operated as separate subsidiaries of Svyazinvest. Accordingly, the Company has a limited operating history as a combined business.

Russian Business Environment

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

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

1. Corporate Information (continued)

Liquidity and Financial Resources

As of December 31, 2002, the Company's current liabilities exceeded its current assets by approximately 852,840 thousand Rubles. As a result, uncertainties exist as to the Company's liquidity and future capital resources.

Since its privatization, the Company invested in expansion and modernization of its network. To a significant extent, the Company financed investment activities through current liabilities and vendor debt. The Company also requires access to debt and other long-term financing.

Management is addressing the Company's liquidity needs by implementing the following measures:

- Development of per minute billing system (as of July 31, 2003 per minute billing was implemented by the regional branch in Karelia and is pending in St. Petersburg and in other regions, as it requires a specific permissions by the Russian Ministry on Antimonopoly Policy, which are expected to be obtained to be obtained within the next 12 months),
- Replacement of hard currency debts by Ruble denominated bonds. The first placement of 300 million Rubles bonds was done in February 2002 (see Note 17 "Loans and borrowings"), and a second placement of 1,500 million Rubles bonds is planned for September 2003 (see Note 24 "Subsequent Events"),
- Management has delayed, and expects to continue to be able to delay, payment for certain operating costs to manage its working capital requirements, and
- If needed, certain projects may be deferred or curtailed in order to fund the Company's current operating needs.

Through 2003, management believes that there will be sufficient funding from (a) existing cash balances, (b) cash generated from operations, (c) placement of Ruble bonds in the Russian market, and (d) other financing from domestic lending institutions.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

The consolidated financial statements have been prepared on an historical cost basis (adjusted for the effects of inflation in accordance with IAS 29).

Prior to 2002, the Company presented financial statements in accordance with accounting principles generally accepted in the United States. These financial statements had been denominated in US dollars.

In consideration of the 2002 reorganization, the Company changed to reporting its financial information in accordance with IFRS. As a result, these accounts reflect the first year that the Company has applied IFRS. As a result of the reorganization and the change in accounting, it was not practical for the Company to present comparative financial information for 2001, including the determination of retained earnings as of January 1, 2002.

Management Estimates

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to December 31, 2002. As described above, the Company has accounted for the reorganization based on the principles of uniting of interests as described in IAS 22, "Business Combinations".

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred from the Company. Significant intercompany balances and transactions have been eliminated. Minority interests reflect the interests in the consolidated subsidiaries not held by the Company (See Note 10 'Subsidiaries').

2. Summary of Significant Accounting Policies (continued)

Investments in Associates

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

Accounting for the Effects of Inflation

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Accounting for the Effects of Inflation (continued)

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

- All amounts are stated in terms of the measuring unit current as of December 31, 2002;

- Monetary assets and liabilities as of December 31, 2002 are not restated as they are already expressed in terms of the monetary unit current as of December 31, 2002;

- Non-monetary assets and liabilities which are not carried at amounts current as of December 31, 2002 and shareholders' equity are restated by applying the relevant conversion factors;

- Indexation adjustments to property and equipment applicable to prior periods are credited to retained earnings in the accompanying balance sheet;

- All items in the consolidated statements of operations and of cash flows are adjusted by applying appropriate conversion factors with the exception of depreciation, amortization and losses from disposal of fixed assets and other assets;

- The effect of inflation on the Company's net monetary position is included in the consolidated statement of operations as a gain or loss on net monetary position.

International accounting and financial reporting bodies believe that, beginning January 1, 2003, Russia should no longer be considered hyperinflationary. As a result, management has determined that it will cease to restate for changes in the general purchasing power of the Ruble subsequent to December 31, 2002. The annual rate of inflation during 2002 was 15.1%.

Foreign Currency Translation

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

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

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

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

In 2003 the Company expects to hire an independent appraiser to assist in the reconstruction of the historical cost of the property and equipment in order to make the necessary adjustments, if any, to the Company's books and records in order to comply with IFRS.

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

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

Construction in progress is recorded as the total of actual expenses incurred by the Company from the beginning of construction to the reporting date, adjusted for the effect of inflation from the date when such expenses occur to the reporting date in accordance with IAS 29.

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

Construction in progress is depreciated once the property and equipment are put into operation.

2. Summary of Significant Accounting Policies (continued)

Property and Equipment (continued)

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

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. Renewals and betterments are capitalized. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of operating results.

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

Property and Equipment Contributions

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

If contributions of property and equipment do not generate revenues such contributions are not recorded.

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

2. Summary of Significant Accounting Policies (continued)

Intangible Assets

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

Intangible assets are amortized on the straight-line basis over the estimated economic useful lives of each class of assets as follows:

Licenses	3-5 years
Software	7-10 years
Goodwill	5 years

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

Research and Development Costs

Research and development costs are expensed as incurred.

Investments

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

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

Inventories

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

Accounts Receivable

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

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognized at cost. After initial recognition, interest-bearing loans and borrowings, are subsequently measured at amortized cost using the effective interest rate method.

Provisions

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

Pensions and Other Post-Employment Benefits

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

In addition to statutory pension benefits, the Company also contributes to defined benefit plans. The majority of the Company's employees are eligible to participate under such defined benefit plans based upon a number of factors, including years of service, age and compensation. Non-government pension fund "Telecom-Soyuz", which is not related to the Company, maintains the plans. The plans provide for payments of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men. The benefits are based on a formula recognizing minimal statutory pension level, length of service, both in the Company and in telecommunications industry as well as final average earnings and position in the Company. The benefits do not vest and are subject to the employee retiring from the Company on or after the above-mentioned respective ages. The Company makes contributions to the pension funds in the amounts representing fixed percentage of participating employees' salaries or in amounts fixed in the agreements with pension funds, depending on the nature of each particular agreement.

2. Summary of Significant Accounting Policies (continued)

Pensions and Other Post-employment Benefits (continued)

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

In order to fund a portion of the Company's obligation, the Company has committed to contribute agreed amounts (negotiated annually) to certain non-government pension plans. Contributions made by the Company to these plans are charged to expense when incurred.

The Company is reviewing its employees' benefit plans, and intends to harmonize them upon completion of this review, obtain an actuarial analysis and record and adequately disclose the defined benefit plans obligations, in order to comply with the requirements of IAS 19, 'Employee Benefits'. Without an actuarial valuation, management is not able to quantify the impact, but believes the liability to be material.

Leases

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

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

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

Revenues

The Company categorizes revenue sources as follows:

1. Monthly subscription fees;
2. Long distance services – domestic and international;
3. Rent of channels;
4. Installation fees;
5. Internet services;
6. Radio broadcasting;
7. Rent of premises;
8. Telegraph services;
9. Wireless services;
10. Other telecommunication services;
11. Other revenues.

2. Summary of Significant Accounting Policies (continued)

Revenues (continued)

Monthly subscription fees

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

Long distance services

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

Rent of channels

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

Installation fees

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

Internet services

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

Radio broadcasting

The Company operates a wire-line radio-broadcasting network. The revenues primarily comprise the monthly fees from subscribers. The Company recognizes the revenues related to radio broadcasting in the period when the services were rendered.

Rent of premises

The Company leases its premises to other businesses under annual contracts. Renewal options are available on the majority of leases. These contracts are accounted for as operating leases and related rental revenues are recognized over the lease term.

Telegraph services

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

2. Summary of Significant Accounting Policies (continued)

Revenues (continued)

Wireless services

The wireless services provided by the Company include paging services and GSM services. The Company recognizes the revenues related to wireless services in the period when the services were rendered.

Other telecommunication services

Other telecommunication services mainly include revenues from payphones network and rent of channels.

Other revenues

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

Income Tax

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Value-added Tax

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

3. Segment Information

NWT operates in one industry, i.e. provision of wireline telecommunication services, on the territory of the North-West region of Russia. The Company's structure is based on territorial units, which service the corresponding parts of the Company's network. The Company's management considers that the Company operates in one geographical and business segment, and evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Company as a whole.

4. Revenues and Expenses

Revenues

Revenues for the year ended December 31, 2002 are comprised of:

	2002
Monthly subscription fees	**3,669,323**
Long distance services – domestic	**3,055,484**
Long distance services – international	**1,459,670**
Rent of channels	**624,570**
Installation fees	**574,771**
Internet services	**215,770**
Radio broadcasting	**158,282**
Rent of premises	**140,842**
Telegraph services	**127,859**
Wireless services	**94,177**
Other telecommunication services	**446,442**
Other revenues	**223,419**
	10,790,609

4. Revenues and Expenses (continued)

Revenues (continued)

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

	2002
Residential (individual) customers	**6,371,150**
Corporate customers	**3,998,980**
Government customers	**420,479**
	10,790,609

Other Operating Expenses

	2002
Consultancy and other professional fees	**110,610**
Rent (excluding channel rent)	**107,111**
Business travel	**68,206**
Transportation expense	**65,534**
Fireguards and security	**61,918**
Fines and penalties	**60,934**
Payments to Gossvyaznadzor	**48,018**
Advertising	**35,722**
Purchase price of goods	**34,815**
Education	**29,486**
Mailing	**22,170**
Consultancy with respect to merger described in Note 1 above	**11,545**
Other	**298,035**
	954,104

Other (income) expenses, net

	2002
Research and development fund contributions	**38,221**
Other income	**(37,593)**
Loss from social assets write-off	**16,395**
Income from investments disposal	**(26,719)**
Other expenses	**31,672**
	21,976

5. Income Tax

Income Tax Expense

	2002
Current tax charge	348,194
Deferred tax charge	13,919
	362,113

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

	2002
Income before provision for income taxes and minority interest	846,245
At statutory income tax rate of 24%	203,099
Effect of:	
Expenses not deductible for tax purposes	170,837
Loss on disposal of property and equipment, not deductible for tax purposes	38,826
Permanent elements of monetary gain	115,889
Inflation effect on deferred tax balance at beginning of year	(185,475)
Other reconciling items	18,937
Income tax expense	362,113

Deferred tax assets and liabilities comprised of the following as of December 31, 2002:

	2002
Deferred income tax assets	
Accounts payable	287,450
Accounts receivable	43,831
Other	130,532
Gross deferred income tax assets	461,813
Deferred income tax liabilities	
Property and equipment	1,386,665
Investment valuation	212,047
Other	262,284
Gross deferred income tax liabilities	1,860,996
Net deferred income tax liability	1,399,183

6. Earnings per Share

Basic and diluted earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Ordinary shares issued as part of the reorganization, that has been accounted for similar to a uniting of interests, are included in the calculation of the weighted average number of shares from January 1, 2002 as the financial statements of the Company are prepared as if the combined entity had always existed. Therefore, the number of ordinary shares is the aggregate of the weighted average number of shares of the combining entities, adjusted to equivalent shares of the Company outstanding after the reorganization.

	2002
Net income	**482,872**
Preferred dividends	**(62,610)**
Net income attributable to ordinary shareholders	**420,262**
Weighted average number of ordinary shares for basic and diluted earnings per share	**735,917,222**
Earnings per ordinary share, Rubles – basic and diluted	**0.57**

The Company has no potential dilutive shares outstanding.

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

7. Dividends

Declared in 2002 (for the year 2001):

Dividends on ordinary shares	**71,159**
Dividends on preference shares	**62,610**
	133,769

Approved at the annual shareholders' meeting for 2002 (see Note 24, "Subsequent Events"):

Dividends on ordinary shares	**47,099**
Dividends on preference shares	**28,283**
	75,382

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

8. Property and Equipment

Property and equipment were comprised of following:

	Buildings and constructions	Switches and transmission devices	Machines and other equipment	Assets under construction and equipment awaiting installation	Total
Cost					
As of December 31, 2001	21,990,547	17,934,953	4,003,165	814,224	44,742,889
Additions	**-**	**-**	**-**	**2,127,606**	**2,127,606**
Disposals	**(472,482)**	**(621,267)**	**(167,541)**	**(66,090)**	**(1,327,380)**
Transfers into operation	**348,842**	**979,345**	**385,640**	**(1,713,827)**	**-**
As of December 31, 2002	**21,866,907**	**18,293,031**	**4,221,264**	**1,161,913**	**45,543,115**
Accumulated Depreciation					
As of December 31, 2001	13,590,844	11,797,228	3,067,546	-	28,455,618
Charge for the year	**527,235**	**831,916**	**328,790**	**-**	**1,687,941**
Depreciation on disposals	**(247,595)**	**(413,932)**	**(156,380)**	**-**	**(817,907)**
As of December 31, 2002	**13,870,484**	**12,215,212**	**3,239,956**	**-**	**29,325,652**
Net book value as of December 31, 2002	**7,996,423**	**6,077,819**	**981,308**	**1,161,913**	**16,217,463**

The net book value of plant and equipment held under finance leases at December 31, 2002 is 86,772 thousand Rubles. Leased assets are pledged as security for the related finance lease liabilities.

The total interest costs capitalized during 2002 amounted to 9,835 thousand Rubles.

Fixed assets with a net book value of 623,009 thousand Rubles as of December 31, 2002 were pledged to secure bank loans.

The accounting for property and equipment does not comply with IAS 16, 29 and 36 – see Note 2 “Summary of Significant Accounting Policies”.

9. Intangible Assets

Intangible assets were comprised of the following:

Cost	
As of December 31, 2001	203,102
Additions	**50,494**
Disposals	**(13,564)**
At December 31, 2002	**240,032**
Accumulated amortization	
As of December 31, 2001	96,617
Charge for the year	**45,540**
Disposals	**(3,985)**
At December 31, 2002	**138,172**
Net book value at December 31, 2002	**101,860**

10. Subsidiaries

As of December 31, 2002 the consolidated financial statements of NWT included the significant subsidiaries listed below:

Name	Nature of business	Percentage holding
OOO “Arkhangelsk’s City Telephone Network”	Provision of network services	77%
OAO “Vologda’s Cell Network”	Cell transmission services	60%

All consolidated entities are incorporated under the laws of the Russian Federation. Certain other subsidiaries have not been consolidated and were accounted for using the cost method, because of their immateriality. These investments were included in other financial investments. See Note 11 “Investments in Associates and Other Financial Investments” below.

11. Investments in Associates and Other Financial Investments

Investments in associates are comprised of the following as of December 31, 2002:

Name	Nature of business	Percentage holding	Carrying value
Accounted for using equity method:			
ZAO "Delta-Telecom", St. Petersburg	Cell network, NMT – 450 MHz	43%	**176,636**
OAO "WestBaltTelecom", Kaliningrad	Provision of network services	28%	**38,053**
ZAO "Medexpess", St. Petersburg	Medical insurance services	35%	**16,692**
ZAO "Severnaya Clearing Chamber", Vologda	Systems of payments and settlements	20%	**12,100**
OAO "Tele-Nord", Murmansk	Cell network, NMT – 450 MHz	25%	**2,679**
			246,160
Carried at cost:			
ZAO "Neva Cable", St. Petersburg	Manufacturing and sales of cables	49%	**394**
"KMS", Kaliningrad	Cell network, NMT – 450 MHz	34%	**300**
Other associates			**23**
			717
Less: allowance for impairment			**(717)**
			246,160

Associates accounted for using equity method were initially recorded at cost and the carrying amount was increased or decreased to recognize the NWT share of the profits or losses of the associates after the date of acquisition. All associates are incorporated under the laws of the Russian Federation.

11. Investments in Associates and Other Financial Investments (continued)

The following other financial investments in subsidiaries and in available-for-sale financial assets were accounted for at cost as of December 31, 2002:

Name	Nature of business	Percentage holding	Carrying value
OAO "Telecominvest"	Communication companies holding	15%	**615,336**
OAO "St. Petersburg Bank of Reconstruction and Development"	Banking services	18%	**21,495**
ZAO "St. Petersburg Center of Electrosvyaz"	Communication education services	54%	**15,359**
OAO "Svyazbank"	Banking services	0.4%	**14,597**
OAO "AMT"	Information and financial services	100%	**12,677**
OAO "RusLeasingSvyaz"	Leasing services	4%	**6,143**
Other			**35,312**
			720,919
Less: allowance for impairment			**(22,281)**
			698,638

All the above companies are incorporated under the laws of the Russian Federation.

As discussed in Note 10 "Subsidiaries" certain other subsidiaries have not been consolidated and were accounted for using the cost method, because of their immateriality, and included in the other financial investments above.

Available-for-sale financial assets do not have a quoted market price in an active market. Accordingly, management has reflected such assets at cost less impairment reserve.

12. Inventories

Inventories comprised of the following as of December 31, 2002:

	2002
Cable, materials and spare parts for telecommunication equipment	**214,239**
Finished goods and goods for sale	**13,864**
Other inventories	**936**
	229,039
Less: allowance for unused and obsolete inventory	**(3,108)**
	225,931

13. Accounts Receivable

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

		2002
Residential customers	(i)	**506,193**
Corporate customers	(i)	**274,817**
Government – customers	(i)	**115,892**
Government – compensations of tariffs	(ii)	**704,022**
Other receivables	(iii)	**137,277**
		1,738,201
Less: provision for doubtful accounts	(ii)	**(738,259)**
		999,942

(i) The Company invoices its governmental and corporate customers on a monthly basis. For residential customers, the Company sends monthly payment requests and substantially relies upon these customers to remit payments based on the received payment requests. All customer payments are based upon tariffs, denominated in Rubles, in effect at the time of calls made.

(ii) In accordance with Russian legislation invalids, veterans and certain other categories of population pay only 50% of published tariffs for services provided by the Company. Local or Federal Government should reimburse the remaining 50%, however, fail to make such reimbursement in full. Most of the above allowance for doubtful accounts related to such receivables.

(iii) Other receivables include prepaid taxes and settlements related to the Company’s non-core activities.

14. Other current assets

Other current assets as of December 31, 2002 comprised the following:

	2002
Input VAT	**376,237**
Prepayments and advances	**211,734**
Taxes paid in advance	**64,900**
Other assets	**138,780**
	791,651
Less: provision for doubtful accounts	**(110,370)**
	681,281

15. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2002 comprised the following:

	2002
Cash at bank and on hand	**327,925**
Short-term bank deposits	**19,251**
	347,176

16. Share Capital

The Company's Share Capital comprised of the following as of December 31, 2002:

Share capital:	2002	
	Shares	**Share capital**
Preference shares, 1 Ruble par value		
Shares issued and outstanding as of December 31, 2002	202,022,788	**202,023**
Shares authorized, not issued	64,605	
Ordinary shares, 1 Ruble par value		
Shares issued and outstanding as of December 31, 2002	735,917,222	**735,917**
Shares authorized, not issued	36,517	
Total share capital		**937,940**

The share capital account represents the authorized capital of the Company as stated in the Charter documents. Of the capital stock issued as of December 31, 2002, 78% were attributable to common shares and 22% attributable to preferred shares, type A. The ordinary shareholders are allowed one vote per share. Preferred shares type A are non-voting. All ordinary shares and type A preferred shares are eligible for distribution of earnings available in accordance with Russian statutory accounting regulations. Preference shares type A are entitled to a minimum annual dividend in the amount equal to 10% of statutory net income available for dividends. Dividends on preference shares type A may not be less than the dividends on ordinary shares. Shareholders of preference shares type A have a preference right to recover the par value of preference shares in liquidation.

16. Share Capital (continued)

The following represents the Company's shareholders as of December 31, 2002:

	Ordinary shares, %		Preference shares, %		Total
OAO "Svyazinvest"	374,172,243	51%	-	-	374,172,243
Brunswick UBS Warburg Nominees	102,844,749	14%	20,325,485	10%	123,170,234
Other legal entities	215,789,975	29%	86,720,674	43%	302,510,649
Individuals	43,110,255	6%	94,976,629	47%	138,086,884
	735,917,222	**100%**	**202,022,788**	**100%**	**937,940,010**

In August 2001, Securities and Exchange Commission registered the Company's Level 1 American Depositary Receipts (ADRs) program for ordinary shares. In September 2001, the Company concluded a respective Depositary Agreement with JP Morgan Chase Bank as a depositary. Each ADR is equal to 50 ordinary shares. No ADRs had been issued under this program through December 31, 2002 (see also Note 24 'Subsequent Events').

17. Loans and Borrowings

Short-term borrowings

As of December 31, 2002 the Company's short-term borrowings consisted of the following:

		Interest rate	2002
Sberbank	(i)	18-19%	88,900
Petrovskiy Bank	(iv)	20%	64,000
Svyazbank	(iii)	21-23%	20,000
Promenergobank	(ii)	18-22%	14,000
Other		18-23%	21,001
			207,901

(i) Sberbank

Consists of several loans totaling 88,900 thousand Rubles. The loans mature between January and October 2003. The Company pledged property and equipment of 168,789 thousand Rubles as collateral.

(iv) Petrovskiy bank

Consists of two loans totaling 64,000 thousand Rubles maturing in March and June 2003. The Company pledged property and equipment of 120,351 thousand Rubles as collateral.

17. Loans and Borrowings (continued)

Short-term borrowings (continued)

(iii) Svyazbank

Consists of several loans totaling 20,000 thousand Rubles. Two loans totaling 15,000 are payable at request. The remaining 5,000 thousand Rubles mature in March and in April 2003. The Company pledged property, plant and equipment of 31,288 thousand Rubles as collateral.

(iv) Promenergobank

Consists of several loans totaling 14,000 thousand Rubles. The loans mature in July and December 2003. The Company pledged property, plant and equipment of 21,387 thousand Rubles as collateral.

Long-term borrowings

As of December 31, 2002 the Company's long-term borrowings consisted of the following:

		Interest rate	Maturity	2002
Loans:				
Vnesheconombank	(i)	6-8.5%	2006	544,634
Svyazinvest	(ii)	Interest-free	2004	63,169
RTK-Leasing	(iii)	19%	2006	29,716
Other				17,998
Total loans				655,517
Vendor debt:				
Consortium comprising of Mitsui, Sumitomo and NEC Corporation	(iv)	LIBOR plus 2.2-2.5%	2004	594,807
Siemens	(v)	6-8%	2007	280,329
Other				88,236
Total vendor debt				963,372
Bonds:				
NWT bonds	(vi)	16-20%		300,000
Total long-term borrowings				**1,918,889**
Less: current portion of long-term debt				(793,162)
Total long-term borrowings, net of current portion				**1,125,727**

17. Loans and Borrowings (continued)

Long-term borrowings (continued)

(i) Vnesheconombank

The indebtedness represents the Company's liability to the Government for amounts paid by the Government under equipment delivery contracts concluded by the Company and foreign suppliers in 1995-1997. Vnesheconombank acted as the agent of the Government for effecting the payments and for the collection of the funds from NWT.

The balance outstanding consists of several debts totaling 544,634 thousand Rubles, including interest and penalties. These debts were originally denominated in German Marks and subsequently, following the introduction of the European currency, redenominated in Euro. The debts are unsecured.

The debts mature in 2006. However, due to the financial crisis in 1998, management is attempting to restructure these debts. On July 27, 2002, the Government issued a resolution # 574 that is aimed at restructuring of the debts in question for repayment through 2012. The restructuring agreements are expected for obtaining by the end of 2003.

(ii) Svyazinvest

In April 2000, the Company received a US Dollar-denominated interest-free loan. The loan is for 2,000 thousand USD (63,169 thousand Rubles as of December 31, 2002 exchange rate). Repayment of 1,000 thousand USD is due in December 2003 and the remaining 1,000 thousand USD in December 2004. The loan is not secured. As described in Notes 1 and 16, Svyazinvest is a majority shareholder of NWT.

(iii) RTK-Leasing

In June 2002, the Company entered into a loan agreement with RTK-Leasing for 29,716 thousand Rubles. The loan is repayable in monthly payments by January 2006. The loan is not secured.

(iv) Mitsui, Sumitomo and NEC

In March 2000, NWT entered into a debt restructuring agreements with several vendors: Mitsui, Sumitomo and NEC Corporation. The loans are for approximately 18,000 thousand Euros (594,807 thousand Rubles as of December 31, 2002 exchange rate). Pursuant to these agreements, the repayment terms, including interest, were amended, and NWT had to provide additional security in the form of guarantees by Svyazinvest. The interest rates range from 2.2% to 2.5% over the London inter-bank rate (LIBOR). Interest and principal payments are made monthly. The maturity date is in December 2004.

17. Loans and Borrowings (continued)

Long-term borrowings (continued)

(v) Siemens

Consists of several Euro-denominated vendor agreements with Siemens for the delivery and installation of telecommunications equipment. The loans are for 8,467 thousand Euros (280,329 thousand Rubles as of December 31, 2002 exchange rate). Some of the principal payments are due monthly and some quarterly. The maturity date is June 2008. The loans are secured by telecommunications equipment.

(vi) Bonds

On March 6, 2002, NWT issued 300,000 non-convertible bonds with face value of 1,000 Rubles each for a total of 300 million Rubles. The bonds were sold at a discount of 3.5%. The maturity date is April 10, 2004. Interest is payable in July 2002 at 20% p.a., in October 2002 at 19% p.a., in April 2003 at 18% p.a., in October 2003 and April 2004 at 16% p.a.

18. Obligations under Finance Leases

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

	Minimum payments	**Present value of payments**
Within one year	**139,702**	**131,509**
After one year but not more than five years	**238,837**	**132,316**
Total minimum lease payments	**378,539**	**263,825**
Less amounts representing finance charges	**(114,714)**	**-**
Present value of minimum lease payments	**263,825**	**263,825**

19. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consisted of the following as of December 31, 2002:

	2002
Accounts payable related to capital construction and other investing activities	**388,446**
Customer advances	**359,399**
Payables to employees	**163,585**
Trade payables to OAO "Rostelecom"	**115,892**
Research and development fund contributions	**85,528**
Other payables	**219,112**
	1,331,962

Other current liabilities primarily include amounts payable relating to salary and social insurance.

	2002
VAT	**370,866**
United social tax	**67,155**
Sales tax	**44,079**
Property tax	**41,343**
Income taxes	**28,277**
Other taxes	**40,322**
	592,042

20. Pension Plans and Employee Benefits

In 2002, the Company made various payments to employees in addition to salary. These payments generally represent financial aid to the Company's employees with limited abilities and bonuses to employees, which had made no breaches of internal policies during the last fiscal year. Such benefits were included in salary, benefits, salary taxes and other social expenses in the accompanying statement of operations and approximated 857,476 thousand Rubles.

As described in Note 2, "Summary of Significant Accounting Policies", "Pensions and Other Post-Employment Benefits", in addition to statutory pension benefits, the Company also contributes to defined benefit plans. The Company has not yet made an actuarial determination of the present value of its benefit obligation under these arrangements to allow it to record its obligation and make the required disclosures under IAS 19, 'Employee Benefits', as of December 31, 2002. In 2002 and prior years, the pension expenses have been recorded based on the amount of contributions paid to "Telecom-Soyuz". Pension fund contributions charged to expense in 2002 were 61,094 thousand Rubles.

21. Commitments and Contingencies

Capital Expenditure Commitments

The Company has purchase commitments for property and equipment incidental to the ordinary course of business. Such commitments aggregated 64,155 thousand Rubles as of December 31, 2002. In aggregate, these commitments are not at prices in excess of current market.

Insurance Coverage

The Russian insurance industry is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. During 2002, the Company did not maintain insurance coverage on a significant part of their property and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss of destruction of certain assets could have a material adverse effect on the Company's operation and financial position.

Litigation, Claims and Assessments

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

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

22. Related Party Transactions

(1) The Government of the Russian Federation and State-owned telecommunications companies

As discussed in Note 16 'Share Capital', the Government of the Russian Federation, through 75% owned holding company Svyazinvest, has effective voting control over NWT. The Company regards Svyazinvest as its parent entity (as disclosed in Note 16, Svyazinvest owns 51% of the Company's ordinary stock). Svyazinvest was wholly owned by the Russian Government until July 1997, when the Government sold 25% plus one share of the Charter Capital of Svyazinvest to the private sector.

22. Related Party Transactions (continued)

(1) The Government of the Russian Federation and State-owned telecommunications companies (continued)

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

In addition, Svyazinvest effectively controls other recently privatized telecommunications companies, which have business relationships with the Company.

During 2002, the Company entered into transactions with such State-controlled and regulated companies that included provision of long-distance interconnection, establishment of joint telecommunications projects and others. NWT has a loan of 2,000 thousand USD outstanding to Svyazinvest as of December 2002 (see Note 17). Other transactions with State-controlled and regulated telecommunications companies, except for Rostelecom, were not material in 2002.

(2) Rostelecom

Rostelecom, a majority owned subsidiary of Svyazinvest, is the primary provider of domestic long distance and international telecommunications services in the Russian Federation. The Company has negotiated interconnection agreements with Rostelecom. The annual expense associated with traffic carried by Rostelecom and terminated outside of the Company's network is stated as interconnection charges. In 2002 interconnection charges related to Rostelecom amounted to 1,256,572 thousand Rubles, other expenses amounted to 216,596 thousand Rubles. The respective payable as of December 31, 2002 was 115,892 thousand Rubles.

(3) Transactions with State organizations

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

Government subscribers accounted for approximately 47% of gross trade accounts receivable as of December 31, 2002 (819,914 thousand Rubles), including 704,022 thousand Rubles of compensations of tariffs of benefit categories of population (see Note 13 "Accounts receivable").

22. Related Party Transactions (continued)

(4) Associates

During 2002 the Company entered into transactions with its investees that included provision of interconnection into the common use network, rent of premises for technological and office use and other services.

ZAO “Delta-Telecom”, an investee of the Company, provides mobile connections and rent of channels. Income received from ZAO “Delta-Telecom” in 2002 amounted to 24,683 thousand Rubles, expenses amounted to 12,338 thousand Rubles.

ZAO “Medexpress” provides insurance services for employees and property. Income received from ZAO “Medexpress” in 2002 amounted to 397 thousand Rubles, expenses amounted to 24,266 thousand Rubles.

The overall effect of other transactions with associated companies on the financial condition of the Company is not material.

The Company’s consolidated balance sheet included the following balances of settlements with associates as of December 31, 2002:

	2002
Accounts receivable from associates	**7,888**
Accounts payable to associates	**66,014**

The consolidated statement of operations for 2002 included the following transactions:

	2002
Sales to associates	**39,794**
Purchases from associates	**61,114**

23. Financial Instruments

Interest Rate Risk

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

	<1 year	1-5 years	Total
Fixed rate			
Long-term borrowings	567,927	756,155	1,324,082
Short-term borrowings	207,901	-	207,901
Obligations under finance leases	131,509	132,316	263,825
	907,337	888,471	1,795,808
Floating rate			
Long-term borrowings	225,235	369,572	594,807

'Long-term borrowings – fixed rate' include the 63,169 thousand Rubles interest-free loan from OAO Svyazinvest, repayable in December 2003 and 2004. Had the average interest rate of 14.6%, effective in the end of December 2002 for Ruble bank loans to enterprises been applied, the fair value of the loan would have been 51,160 thousand Rubles.

24. Subsequent Events

(1) Dividends

The Board of Directors of the Company proposed dividends for the year ended December 31, 2002 totaling approximately 75,382 thousand Rubles (of which 28,283 thousand Rubles – on preference shares, and 47,099 thousand Rubles - on ordinary shares). The proposed dividends were approved at the annual shareholders' meeting on June 23, 2003.

(2) Tariffs for telecom services

Effective July 2003, tariffs for certain type of local and long-distance calls and installation fees were increased by approximately 25% for individuals and 14% for legal entities. Tariffs for other services were increased by an average of 15%.

24. Subsequent Events (continued)

(3) Planned bond issue

In June 2003 the Company filed a prospectus to issue bonds for 1,500 million Rubles. The bond placement is planned for September 2003. The interest rate will be set on the date of issuance.

Repayment schedule is as follows:

1. After 3 years from the day of placement	450 million Rubles
2. After 3.5 years from the day of placement	450 million Rubles
3. After 4 years from the day of placement	600 million Rubles

However, the bond holders will have a right to claim early repayment at the end of two years after the bonds issuance date.

(4) Merger of OAO "Lensvyaz" and OAO "Svyaz" of Republic Komi.

On May 15, 2003, the Board of Directors approved plans for the merger with OAO "Lensvyaz" and OAO "Svyaz" of Republic Komi. The timing and financial effect of this event cannot be estimated at this time. The completion of mergers is subject to regulatory and shareholder approval.

(5) Telecommunications Reforms

- A new law "On Telecommunications" will come into effect on January 1, 2004.
- Subsequent to December 31, 2002, Rostelecom commenced reforms of the system of settlements with regional operators for domestic long-distance traffic. Under the existing method, settlements between Rostelecom and regional operators are based on one minute of domestic transit traffic sent through 50 km of Rostelecom networks. The integral settlement rate (ISR) contains two components – a linear component and a termination charge, which is calculated based on the weighted average of incoming and outgoing traffic. The ISR was set once a year based on the traffic data for the preceding year and distorted the economic benefits and costs of providing and terminating transit traffic in the year applied.

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

  As of July 31, 2003 the Company did not sign the new interconnection agreements with Rostelecom.

Management cannot currently predict the outcome of these changes on the Company's future operations.

24. Subsequent Events (continued)

(6) Implementation of Oracle

On June 3, 2003, the Board of Directors approved an agreement with ZAO Otkritiye Technologii 98 to purchase Oracle E-Business Suite for the amount of 15,460 thousand USD (approximately 470,000 thousand Rubles).

(7) ADRs Issuance

In July 2003 the Company started issuance of ADRs under the program described in Note 16 ‘Share Capital’. As of July 31, 2003, there were 15,780 ADRs issued that represented 789,000 deposited ordinary shares, or 0.1 % of total ordinary shares issued and outstanding.