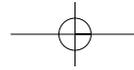


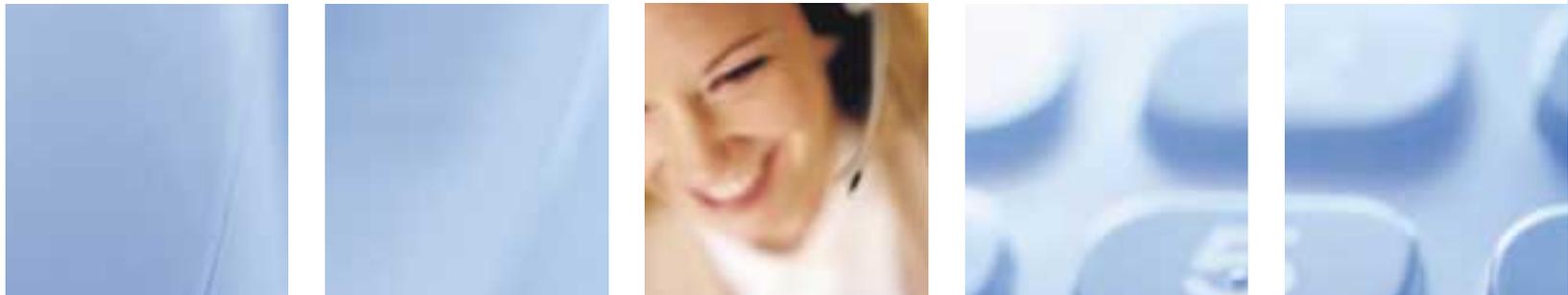


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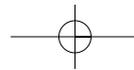
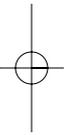
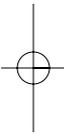
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ANNUAL REPORT 2002



always in touch



Rostelecom Annual Report 2002

Rostelecom is Russia's national long-distance telecommunications operator. It owns and operates an up-to-date nationwide digital trunk network.

Outside of Moscow, Rostelecom acts as a "carriers' carrier" - interconnecting all local public operators' networks into a single transnational network.

In Moscow, Rostelecom provides fixed-line domestic long-distance (DLD) and international (ILD) services to end-users through the last-mile infrastructure of a local operator, and bills customers directly.

Rostelecom is the only Russian operator licensed to carry both outgoing and incoming international traffic. The Company has interests in 30 international cable systems and cooperates with 400 international operators.

Domestic long-distance (DLD) traffic contributes 34% to Rostelecom revenues. Outgoing international long-distance (ILD) accounts for 30%, and payments from international operators for the incoming international traffic account for 18%. The remaining 18% of revenues is derived from the leased line business, telex, telegraph, TV, radio broadcasting, etc.

Svyazinvest - the State-controlled holding company - is Rostelecom's majority shareholder, holding 51% of ordinary (voting) shares. Rostelecom's free float is comprised of the remaining 49% of the ordinary shares and 100% of the preferred shares, which are publicly traded on the major Russian stock exchanges. In 1998, Rostelecom listed American Depositary Receipts (ADRs) on the New York Stock Exchange (NYSE) under the ticker ROS. Rostelecom ADRs, each equivalent to six ordinary shares, are also traded on major European trading floors, including London, Frankfurt and other stock exchanges.

Financial and Operating Highlights*

	2001	2002	% change YoY
Million minutes			
Domestic long-distance traffic	6,178.9	7,136.2	15.5%
International outgoing long-distance traffic	1,081.8	1,234.6	14.1%
International incoming long-distance traffic	869.0	973.3	12.0%
USD million			
Revenue	842.4	844.9	0.3%
EBITDA	294.5	327.1	11.1%
EBITDA Margin, %	35.0%	38.7%	
Operating profit	56.3	74.5	32.2%
Operating Margin, %	6.7%	8.8%	
Net profit	116.8	37.2	-68.2
Net Margin, %	13.9%	4.4%	
Dividends			
On preferred shares	7.1	9.4	31.9%
On ordinary shares	5.0	12.0	141.0%
Corporate debt			
Corporate debt	259.5	263.7	1.6%
Net debt	102.2	5.2	-94.9%

* In order to ensure comparability of Rostelecom's financial statements to peer companies, all amounts of the audited consolidated financial statements prepared in accordance with International Financial Reporting Standards (IAS) included in the text and the tables of the Annual Report were translated into US dollars (USD).

To calculate the dollar amounts of the profit and loss statement with respect to monetary items, inflated rubles as reported in the audited consolidated financial statements were deinflated and translated into USD using average inflation indices and exchange rates:

	2001	2002
Inflation index	1.2318268	1.062425
RUR/USD rate	29.17	31.35

Non-monetary items of the profit and loss statement (depreciation and loss on sale of PP&E) were deinflated using historical inflation indices:

	2001	2002
Inflation index	1.1513101	1.1498185
RUR/USD rate	29.17	31.35

To calculate the dollar amounts of the balance sheets, non-monetary items were deinflated using weighted average historical inflation indices (individual for each particular item) and translated into USD using exchange rate at the end of the respective period. Monetary items of the balance sheet as of December 31, 2001 were deinflated using 1.15124 inflation index (inflation index for 2002). Monetary items of the balance sheet as of December 31, 2002 were not deinflated.



Chairman's Statement

To our Shareholders, Employees, Customers and Partners,

I am pleased to present Rostelecom's annual report for 2002.

In reviewing the year's achievements, I would like to thank our shareholders, employees, customers and partners who have played a vital role in the success of our business.

Over the past financial year Rostelecom began to implement a program of change that addresses every key area of its operations. A new management team is in place and has focused on reorganizing the Company's corporate structure, improving the operational efficiency of the key business units, implementing our proposed investment projects, introducing modern management processes, and expanding the range of services we offer to end users and operators. We have also substantially improved the Company's financial and operational performance.

Overall, 2002 was another year of solid progress for Rostelecom. The work performed by our employees will ensure a stable future for the Company, and is truly deserving of the highest praise.

Rostelecom is Russia's telecommunications leader, and one of the country's largest enterprises. I am confident that as the national provider of long-distance and international telecommunications, Rostelecom will continue to make a crucial contribution to the development of a vibrant telecommunications infrastructure to underpin Russia's improving economic position.

A handwritten signature in blue ink, appearing to read 'Valery N. Yashin', with a horizontal line underneath.

Valery N. Yashin
Chairman of the Board, Rostelecom
General Director, Svyazinvest



A Message From the General Director

At the end of each year we inevitably reflect on what we have accomplished and what opportunities and challenges lie ahead. This is particularly the case for 2002, which was a very critical and active year for the new management team. We achieved a number of strategic milestones, and the steps we took to improve the Company's financial strength are beginning to deliver benefits.

The most significant event for Rostelecom in 2002 was the completion of the regional restructuring. As of January 1, 2003, Rostelecom's organization has been streamlined to form seven regional business units and three functional branches, down from 24 in the past. This enabled us to optimize our asset base, introduce new management practices, increase efficiency and create a solid foundation for Rostelecom's future growth.

In 2002 we completed a number of large investment projects on construction and modernization of fiber-optic telecommunications lines. In June, Rostelecom completed the modernization of the line between Moscow and St. Petersburg, which significantly expanded the throughput capacity of this major route. In the summer, Rostelecom initiated a major upgrade of the Moscow to Novosibirsk and Moscow to Novorossiisk fiber optic lines. Additionally, in 2002 the construction of the fiber optic line between Russia and Kazakhstan was completed.

Both the staff and the management of Rostelecom are focused on the Company's mission to bring Russia full-speed into the information age. Our aim will continue to be to strengthen the Company's position in the Russian and international telecom markets and secure a strong financial future, and to connect Russian citizens and businesses to each other and to the global economy. Looking back on the past year, we can say that much has been achieved, but that much still remains to be done.

Sergei I. Kuznetsov
General Director, Rostelecom

A handwritten signature in blue ink, appearing to read 'Sergei I. Kuznetsov'. The signature is fluid and cursive, written over a light blue background.



Rostelecom Milestones

2002

JANUARY

Rostelecom repaid USD 10.2 million in debt to Telecom Italia, ahead of schedule.

FEBRUARY

The Company restructured its debt obligations to the Danish company DRTG, related to the financing of the construction of microwave lines between Moscow and Kingisepp and between St. Petersburg and Kingisepp, and to the extension of the undersea cable system from Denmark to Russia. This resulted in a decrease of Rostelecom's debt to DRTG from DKK 300 million to DKK 80 million. The debt is subject to repayment in 2003.

MARCH

Rostelecom signed an agreement for the sale of the Company's 50% stake in Sovintel to Golden Telecom. The transaction was completed in September 2002.

The Company restructured its debt to Sberbank of Russia in

the amount of RUR 200 million. Additionally, during the year, Rostelecom repaid RUR 50 million of debt at maturity and RUR 100 million ahead of schedule.

Rostelecom took part in CeBIT-2002 in Hanover, the world's largest exhibition on information technology, communications and software.

APRIL

The General Director of Rostelecom, Sergei Kuznetsov, participated in a meeting of the Intergovernmental Telecommunications and Information Technologies Committee of Russia and China in Chanzhou. As part of his visit to China, Mr. Kuznetsov also met with the management of China Telecom, as a result of which the companies agreed on a mutual reduction in settlement rates.

Rostelecom's Board of Directors met to discuss matters related to the Annual General Shareholders' meeting. The AGM was set for June 1,

2002, the AGM agenda was approved and the record date was determined as April 14, 2002. The Board also decided on the recommended dividends for 2001: RUR 0.9195 per preferred share and RUR 0.2145 per ordinary share, resulting in a total payment of RUR 379.6 million.

Rostelecom adopted the Declaration of Principles of Corporate Governance.

The international rating agency Standard & Poor's raised the Company's long-term credit rating from CCC to B-.

MAY

Rostelecom repaid USD 17.7 million in debt to Merrill Lynch, ahead of schedule.

JUNE

On June 1, 2002 Rostelecom's Annual General Shareholders' Meeting was held, followed by the first meeting of the new Board of Directors. The Board elected a new Chairman, and formed a new Management Board.

Rostelecom completed the first stage of the Baltic Cable System construction project.

JULY

Rostelecom's Corporate University was launched. The initial step in the development of this new education system was the introduction of the RTK Master program, which trains current and future managers and improves their professional qualifications.

Rostelecom initiated a major upgrade of the fiber-optic line between Moscow and Novorossiisk, using DWDM technology to increase its capacity.

AUGUST

For the first time ever, two million long-distance and international calls were made through Rostelecom's Moscow network in a 24-hour period.

Within the framework of strengthening cooperation between Russia and China in the telecommunications and information technologies fields, the Chinese government presented

Russia with DWDM equipment produced by Huawei Technologies. Rostelecom received this equipment from the Russian government and used it for the modernization of its Moscow to Novosibirsk line on the route between Moscow and Samara.

Rostelecom initiated a major upgrade of the Moscow to Novosibirsk fiber-optic line, using DWDM technology.

The first stage of construction of Rostelecom's corporate data transfer network was completed. This network links the Company's Headquarters with its regional business units.

SEPTEMBER

Free Phone (800) service was introduced in St. Petersburg.

OCTOBER

The Company completed the reorganization of its business units by enlarging its regional and functional branches.

Rostelecom completed the purchase of a 50% stake in Westelcom, a company that



owns international switching centers in Moscow and St. Petersburg and has interests in a number of international cable systems, from the RTDC holding company. As a result, Rostelecom gained 100% control over these strategically important assets.

Rostelecom restructured its obligations to Siemens in the amount of Euro 32 million. In November this debt was repaid in full. Income from this transaction amounted to USD 7 million.

NOVEMBER

Rostelecom began the construction of the Russia to Azerbaijan fiber-optic line.

DECEMBER

The Company took part in Telecom Asia-2002, an international telecommunications exhibition held in Hong Kong. Rostelecom's booth was presented as part of the Russian national exhibit, which also included displays by the Ministry of Telecommunications and Svyazinvest, among others.

Rostelecom completed the construction of the Russia to Kazakhstan fiber-optic line.

Sergei Kuznetsov, General Director of Rostelecom, was ranked in the Top 100 of the 1000 Most Professional Managers in Russia, published by Kommersant. Mr. Kuznetsov took eighth place in the 100 Most Professional Managers in Russia, and was second in the telecommunications category. Rostelecom's management team took sixth place in Russia's 100 Most Professional Management Teams, and came second in the same competition for the telecommunications sector.

2003

JANUARY

From January 1, tariffs for state-funded organizations in Moscow were raised by an average of 20% on domestic long-distance calls during peak hours (8.00 to 20.00 on working days).

Rostelecom completed the implementation stage of the ERP system aimed at improving company controls.



The Company received first approvals and connected its first clients to the new modern flexible multiplexers network.

Rostelecom became the general sponsor of the Russian National Football Team and the Russian Football Union.

FEBRUARY

The new management team for Rostelecom's Moscow branch – Intercity and International Telephone (MMT) was appointed, with the aim of strengthening the Company's position in the Moscow market.

The new billing system for alternative operators was rolled out in a test mode. This system ensures full control over the volume of services provided to alternative operators and guarantees the necessary reliability level for settlements.

During a meeting with representatives of MGTS (Moscow's local telephone network operator) an agreement was reached regarding the financial relationship between Rostelecom and MGTS for 2003.

MARCH

Rostelecom took part in CeBIT-2003, one of the world's largest exhibitions in IT and telecommunications technology, which was held in Hanover, Germany.

APRIL

Rostelecom's Board of Directors met to discuss matters related to the Annual General Shareholders' meeting. The AGM was set for June 15, 2003, the AGM's agen-



da was approved and the record date was determined as April 28, 2003. The Board also made its recommendation on the dividends for 2002: RUR 1.27472 per preferred share and RUR 0.54347 per ordinary share, resulting in a total payment of RUR 705.6 million.

Rostelecom signed a service agreement with Sberbank of Russia, establishing unified terms for all the Company's accounts with the bank.



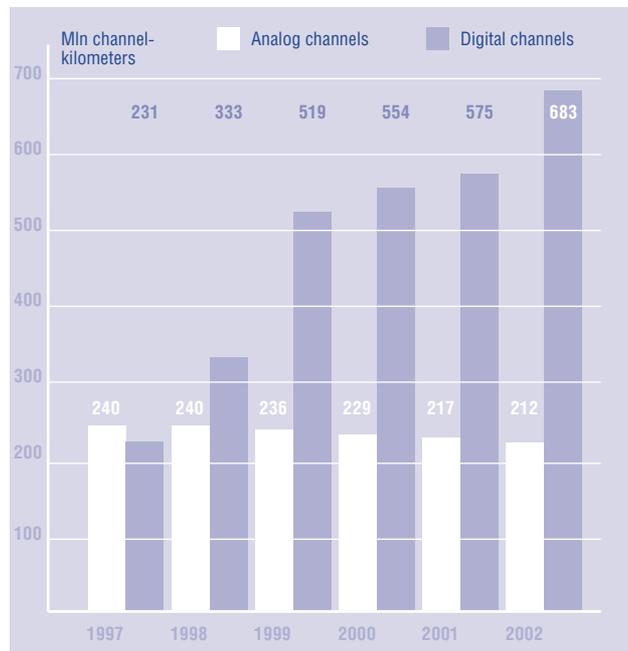
Rostelecom's National Trunk Network

Due to large-scale investments in the mid-1990s, Rostelecom today has an up-to-date trunk telecommunications network covering almost the entire country. The network is approximately 200,000 kilometers in length, with a 76% digitalization rate (in channel-kilometers).

The network is structured around three fiber-optic backbone lines between Moscow and Novorossiisk, Moscow and Khabarovsk, and Moscow and St. Petersburg. The network links together 88 digital Automatic Trunk Exchanges in 77 regions of the Russian Federation through digital lines.

The Company's network is based on eight high-capacity Automatic Switching Nodes and 11 International Switching Centers. By the end of 2002, the switching equipment was more than 91% digital.

Development Dynamics of the Primary Network



Development Dynamics of Switching Capacity



Key Focus Areas for Rostelecom's Investment Program

The main objective of Rostelecom's investment program is to further develop and modernize the integrated digital telecommunications network, which will in turn strengthen the Company's position in all segments of Russia's long-distance telecommunications market.

The investment program focuses on the following major areas:

- Construction of high-speed fiber-optic telecommunications trunk lines. The creation of new fiber-optic lines will provide the Company with access to new international routes, link the country's major cities to the Company's network, as well as create a backup system for existing telecommunications lines.
- Reconstruction of existing telecommunications trunk lines using Dense Wavelength Division Multiplexing (DWDM) technology aimed at enhancing the network's throughput capacity.
- Expansion of the existing Automatic Switching Nodes, International Switching Centers, and the Automatic Trunk Exchanges.
- Construction of a modern flexible multiplexers network in order to optimize operation of the trunk network, and to provide clients with the option to lease digital channels with optimal throughput capacity.
- Phasing out of analog trunk lines along with the expansion of the digital network.



2002 Major Investment Projects

Russia to Kazakhstan Fiber-Optic Line

The construction of a new fiber-optic line between Russia and Kazakhstan created a second point of access to Kazakhstan for Rostelecom's trunk network. The line that now connects the Russian and Kazakh International Switching Centers has completed the loop of existing telecommunications lines between the Russian Federation, the Republic of Kazakhstan, and the Peoples Republic of China.

First Stage of the Baltic Cable System

The first stage of the Baltic Cable System project, developed in conjunction with the Swedish firm Telia, was completed in 2002. It included the modernization of the Moscow to St. Petersburg to Kingissep line using DWDM technology, and also the expansion of the Company's participation in international cable systems.

Modernization of the Moscow to Novosibirsk and Moscow to Novorossiisk lines

In 2002 the Company started implementing projects to expand the throughput capacity of the Moscow to Novosibirsk and Moscow to Novorossiisk lines using DWDM technology. In addition to expanding the capacity of these important trunk lines, these projects also include the creation of new lines, as well as the expansion of existing digital links to Russia's major cities. During 2002 the modernization of the route from Moscow to Samara on the Moscow to Novosibirsk line was completed using DWDM equipment produced by Huawei Technologies. This equipment was provided by the Chinese government to Russia within the framework of their bilateral cooperation in the telecommunications field.

Construction of a Flexible Multiplexers Network

In 2002 Rostelecom began constructing a network of modern flexible multiplexers. 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 Company's capital expenditure in 2002 amounted to USD 80 million.

Project	Constructed/Installed in 2002
Fiber-optic lines (km)	455.97
Russia-Kazakhstan fiber-optic line, stage 1	417.35
Russia-Kazakhstan fiber-optic line, stage 2	38.62
Trunk exchanges (channels)	5,910

Key Investment Priorities for 2003 and Beyond

Rostelecom's planned capital expenditure for 2003 is expected to be approximately USD 170 million. The investment program includes the implementation of the following major projects:

- Completion of the Gatikha to Apastovo line in the Central and Volga regions, with a branch to Nizhny Novgorod and Cheboksary. Construction of this high-speed digital line – which is 933 km in length – will provide a backup for the European part of the Moscow to Khabarovsk trunk line, and provide Nizhniy Novgorod and Cheboksary Automatic Trunk Exchanges with access to the Company's trunk network.
- Completion of the fiber-optic line from Kaliningrad to Gvardeisk with a branch to the Lithuanian border, which will link Kaliningrad to Rostelecom's network by a digital line, and expand the Company's international network.
- Completion of the fiber-optic line from Russia to Azerbaijan that will connect the Russian and Azerbaijan International Switching Centers, and also strengthen Rostelecom's market position in traffic exchange in the Caucasus and the Middle East.
- Construction of the fiber-optic line from Yekaterinburg to Perm that will complete the loop for the Moscow-Khabarovsk line in the Volga and Urals regions.
- Construction of the Kingisepp to Pskov to Smolensk to Moscow fiber-optic line, with a branch to Belarus and Latvia, which will create a loop in the North-West region, and provide a backup for the Baltic Cable System.

- All the major newly constructed fiber-optic lines will be equipped with DWDM technology.
- In 2003 Rostelecom intends to complete projects to expand the throughput capacity of the Moscow-Novorossiisk and Moscow-Novosibirsk lines.

In addition, in 2003 the Company is planning a large-scale expansion of its switching capacity on the secondary network and the construction of new switching centers. In particular, the Automatic Trunk Exchanges in Moscow will be expanded, which will enable the Company to increase the volume of services offered to the capital's operators and subscribers. Furthermore, the capacity of the Company's Automatic Switching Nodes and International Switching Centers will be substantially increased to enhance the existing long-distance and international routes.

Rostelecom also plans to invest in new billing systems, both for subscribers and operators. This will significantly upgrade the quality of client service, optimize receivable collections, and improve the monitoring, and accounting of traffic and revenue.



Management's Review of 2002 Achievements

Company Reorganization

New Entrepreneurial Management Team

During 2002 substantial changes were made to Rostelecom's executive management, and management teams for the individual business units were also established. The appointed executives are professionals with industry experience and track records of success in other Russian and Western telecommunications businesses.

The aim of Rostelecom's new management team is to strengthen the Company's competitive position within Russia's telecommunications market by making it an efficient, customer-focused business, and to maximize the Company's value for its shareholders.

Rostelecom's management team has already earned recognition from respected observers of the business world in the latest ranking of Russia's most successful business leaders by the Association of Managers and Kommersant publishing house. Sergei Kuznetsov, Rostelecom's General Director, took eighth place in the top 100 Most Professional Managers in Russia, as well as second place in the Industrial Leaders group in the telecommunications category. Rostelecom's management team ranked sixth in the top 100 of Russia's Most Professional Management Teams, and took second place in the Best Management Teams in the telecommunications sector.

Efficient New Organizational Structure

The end of 2002 saw the completion of the reorganization of Rostelecom's major business units. The Company has reduced the number of business units from 25 to 10. The streamlined structure comprises seven regional and three operating business units.

The Company's 17 regional business units were consolidated into seven units to correspond with Svyazinvest's regional operators' service areas, which represent some of Rostelecom's largest customers in Russia.

This reorganization was carried out in close coordination with Svyazinvest, which in turn consolidated its regional operators into seven super-regional companies. In addition, Svyazinvest and Rostelecom signed a technical agreement for a plan for interconnecting the networks, which will provide the fundamental principles of cooperation between the Company and the super-regional telecoms.

Rostelecom's three operating business units include Intercity and International Telephone (MMT), Main Control Center for Long-distance Calls and Television (GTsUMS), and the Work Study Center (UPTs RT).

This reorganization has resulted in a significant decline in headcount due to administrative and management redundancies. This has increased productivity and has made the Company's business units easier to manage since the structures of the newly established regional business units are organized on uniform operating principles. The reorganization has also led to optimization of management resources and operational efficiency of the Company's network.



Optimizing Rostelecom's Business Portfolio

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 of the examples of non-core asset disposals is the sale of Rostelecom's 22% interest in OJSC Giprosvyaz, which specializes in scientific research and design. This sale realized approximately USD 3 million.

The largest transaction of 2002 was the sale of the Company's 50% stake in Sovintel to the telecommunications holding company, Golden Telecom. Under the terms of this agreement, Rostelecom received USD 56 million, a 15% stake in Golden Telecom, and representation on its Board. This transaction provided the Company with substantial proceeds for debt reduction.

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 USD 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 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 December, Rostelecom took part in a capital increase of the Internet operator RTComm.RU, subsequently raising the Company's stake from 25% to 31%. The value of this transaction amounted to the equivalent of USD 400,000. RTComm.RU is one of the largest players in the highly profitable and rapidly developing Internet access market. At present, RTComm.RU holds a 30% market share nationwide. Rostelecom owns 31% of RTComm.RU directly, and an additional 49.8% through its subsidiary RTC-Leasing. Hence, the Company is consolidating the accounts of RTComm.RU. The positive effect of this consolidation on Rostelecom's revenue for 2002 amounted to USD 23 million.

Redevelopment and Introduction of New Business Processes

Within the framework of the Company's restructuring program, 2002 saw the introduction and fine-tuning of business processes. In particular, unified accounting policies were introduced during the year at the Headquarters and business unit levels, and unified budgeting procedures were also put in place.

In order to improve the Company's management systems, in 2002 Rostelecom launched a project to introduce an Enterprise Resource Planning (ERP) system. This will provide a unified information system for the entire organization as well as rapid access to consistent information, which is critical for efficient management decision-making.

Over 2002 the efforts of various divisions were combined to develop automated business processes in finance, analytics, tax and general reporting. Several modules of the system have already been rolled out at Rostelecom Headquarters and several business units.

In 2003, the project group will implement the ERP system throughout all the Company's business units, and also create a unified database.

The Company understands the importance of efficient human resources management. In 2002 Rostelecom rolled out the HR management system. During the course of the year, work on fine-tuning the system's personnel module was completed, and adjustments were made to the salary calculation function. The system has already been introduced at the corporate level and in several of the Company's business units.

Looking to 2003, Rostelecom intends to introduce these systems throughout the Company as a whole, and integrate them with each other and the existing systems, to create a unified, transparent information platform which embraces all of the Company's divisions and business units.

Improved Cost Analysis

During 2002 Rostelecom introduced a separate cost accounting system by type of service (ABC cost accounting), on the basis of a study completed by McKinsey & Company.

This resulted in the identification and elimination of inaccuracies in cost accounting and closer coordination between all the Company's divisions responsible for cost accounting.

Separate accounting of costs helped Rostelecom to identify loss-making services, which are mainly services provided at regulated tariffs. Moreover, it helped to identify the need for optimization of tariffs for unregulated services, for example, leased line pricing.

The data not only facilitates determination of areas for future improvement in tariff policy, but also comparisons of expenses incurred by the Company's various divisions on servicing the same type of equipment. This, in turn, will lead to further optimization of the Company's costs.

The introduction of separate accounting for costs is the first stage in the process of calculating economically justified expenses and normative profit for telecommunications services. The next stage will be working with regulatory authorities to agree on tariffs that account for economically justified expenses and required rates of return on capital.

Services and Revenues

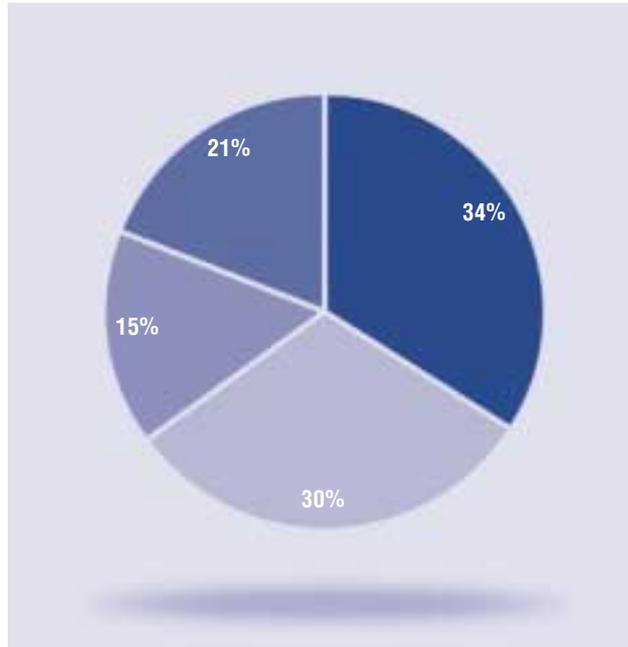
In 2002 Rostelecom maintained its position as the largest fixed-line telecommunications operator in the Russian telecom market. 2002 revenues amounted to USD 844.9 million, an increase of 0.3% over 2001.

The majority of the Company's revenue is derived from international and long-distance telephone traffic transit from regional, alternative and mobile operators throughout the country, as well as from international and long-distance telecommunications services provided to end-users in Moscow.

According to Company estimates, at the end of 2002 Rostelecom's market share in various sectors was as follows (measured by traffic minutes):

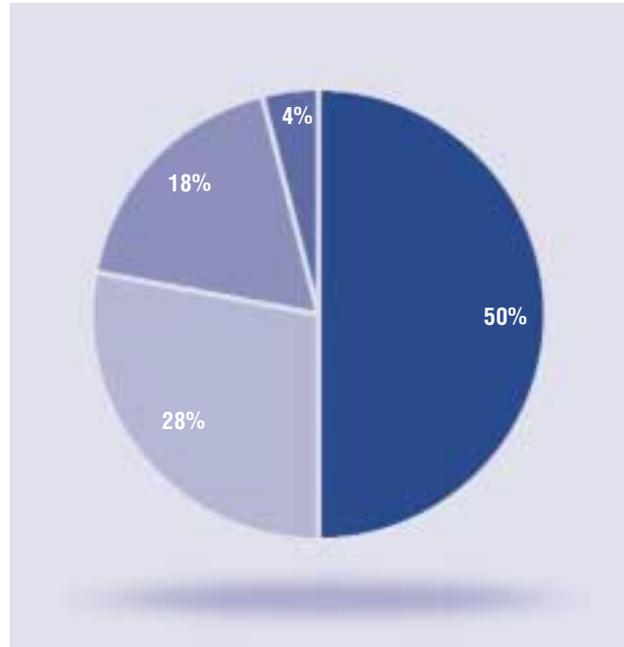
- Domestic long-distance traffic transit – 87%;
- Outgoing international long-distance traffic transit – 80%;
- Incoming international traffic – 54%;
- Domestic and international long-distance services offered to Moscow end-users, alternative and mobile operators – 47%.

Revenue Breakdown by Service



- DLD traffic
- Outgoing ILD traffic
- Incoming ILD traffic
- Other

Revenue Breakdown by Client



- Local operators
- Subscribers
- International operators
- Other



Domestic Long-Distance (DLD) Services

In 2002, revenue from domestic long-distance services amounted to USD 282.5 million, a 16.5% increase over the previous year. Long-distance traffic for 2002 rose by 15.5% year-on-year to 7,136.2 million minutes.

Several factors led to this increase in traffic, including:

- Further digitalization of the Company's network – at year end 2002, the level of digitization of the transmission system exceeded 76%;
- Regional operators commissioning new lines - 2,600,000 lines were added in 2002 increasing Russia's fixed-line penetration rate from 21% to 22%;
- Increase in long distance mobile traffic thanks to the addition of ten million Russian mobile subscribers in 2002;
- A favorable macroeconomic climate, including a rise in income per capita of 27.1% in 2002.

In 2002, DLD revenue from Russian operators amounted to USD 177.0 million, representing an increase of 26.8% over a year ago. Traffic from operators reached 5,925.0 million minutes, an 18.0% increase over the same figure for 2001.

The regional operators' market delivered the strongest revenue growth (32.3%), due to a combination of healthy traffic growth (15.4%) and increases in settlement rates. The increase in the linear component of Rostelecom's integral settlement rate with regional operators for domestic long-distance traffic was made in two stages: it was raised by 25% as of July 1, 2001, and then by a further 25% as of January 1, 2002. This change reduced the extent of cross-subsidies in the sector, where revenues from domestic long-distance services are used to compensate regional operators' losses on the local access services.

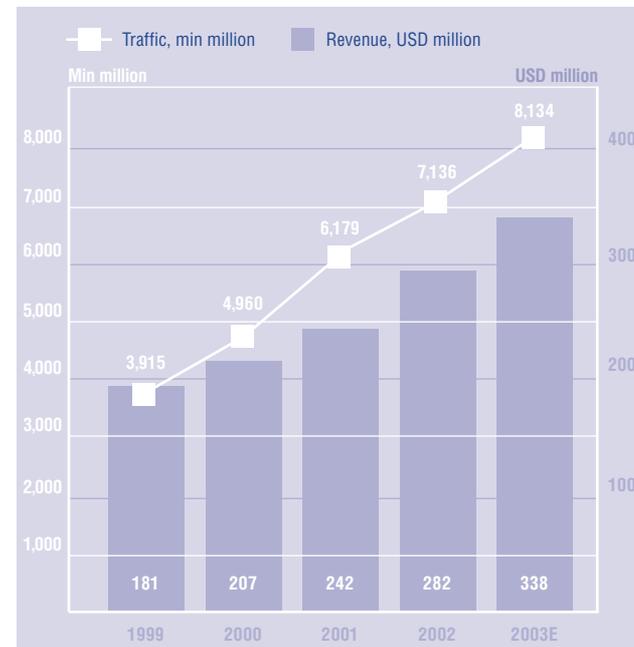
Revenue from DLD services provided by Rostelecom to end-users in Moscow rose 2.5% in 2002 to USD 105.5 million, accompanied by an increase in traffic of 4.5% to 1,211.2 million minutes.

In 2002 the Company continued its efforts to rebalance domestic long-distance tariffs in Moscow in order to eliminate another type of cross subsidy, when revenues from one group of subscribers – commercial companies – are used to subsidize other groups of consumers – state-funded organizations and households.

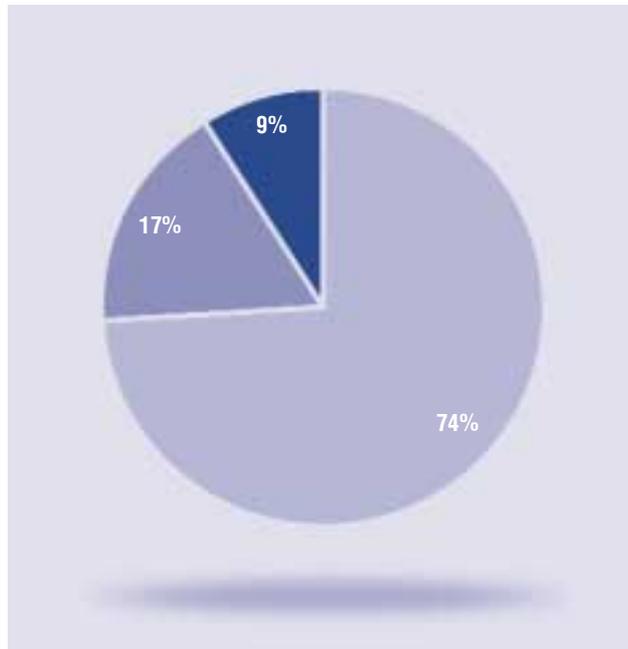
Since July 1, 2001, tariffs for households have been increased on average by 16%. Tariffs for state-funded organizations have been raised several times over the past two years for an overall increase of some 58%. Despite the fact that the Anti-Monopoly Ministry currently regulates all domestic long-distance tariffs for Rostelecom in Moscow, the elimination of cross-subsidies between groups of users will enable the Company to pursue a more flexible tariff policy in the Moscow DLD market in the future.

In 2002 the Company also changed its pricing policy for leased line services to operators. Tariffs for providing digital channels to operators were increased to the level of the cost of the traffic transit substitute services. As a result the imbalance of tariffs between services was reduced, decreasing the economic justification for alternative operators to build competing overlay networks, and driving increased traffic volumes through Rostelecom's network.

Domestic Long-Distance Traffic and Revenue Dynamics

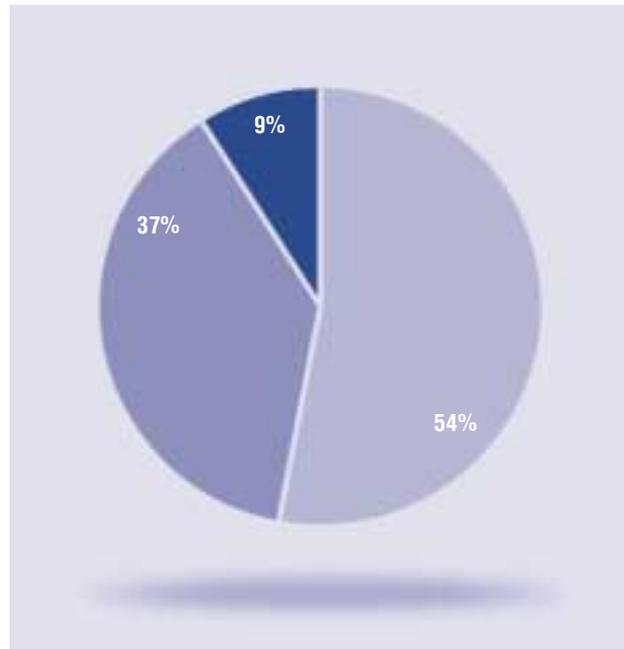


Breakdown of Domestic Long-Distance Traffic by Client



- Regional operators
- Subscribers
- Alternative operators

Breakdown of Domestic Long-Distance Revenue by Client



- Regional operators
- Subscribers
- Alternative operators

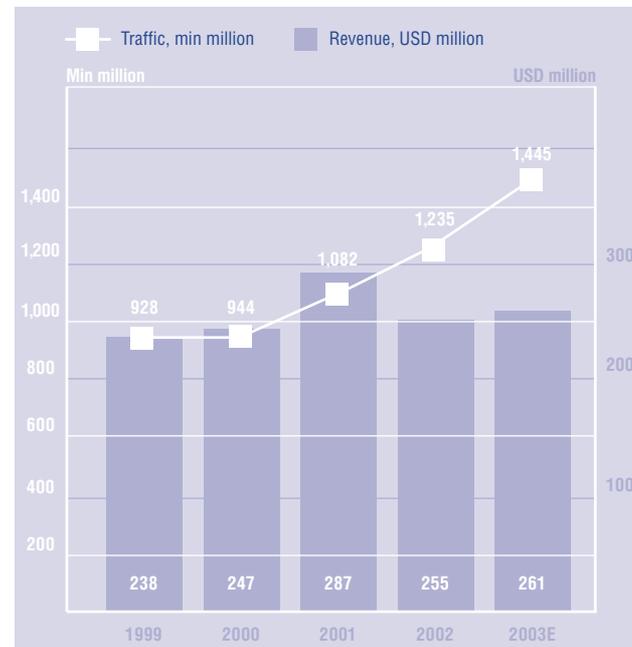
International Long-Distance (ILD) Services to Russian Operators and Subscribers

Revenue from ILD services provided to operators and subscribers in Russia in 2002 amounted to USD 254.8 million, a decline of 11.2% in dollar terms year-on-year. Outgoing international traffic in 2002 rose by 14.1% to 1,234.6 million minutes.

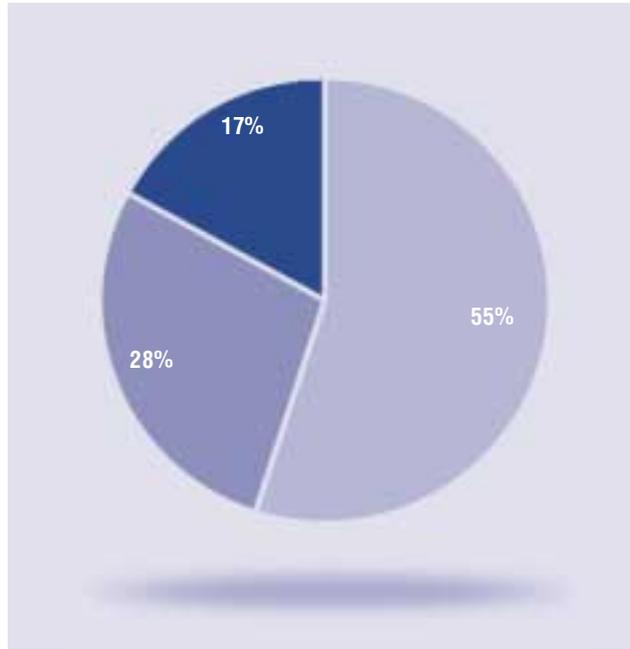
Revenues fell due to intense competition in the Moscow corporate client market, resulting in reduced traffic and revenue for Rostelecom. ILD revenue from subscribers in 2002 fell by 24.6% compared to 2001, to USD 103.9 million. Traffic from subscribers decreased by 13.9% to 343.0 million minutes compared to the previous year.

ILD revenue from Russian operators in 2002 amounted to USD 150.9 million, a 1.1% rise compared to 2001. Outgoing international traffic from Russian operators rose by 30.5% to 891.6 million minutes.

Outgoing International Traffic and Revenue Dynamics

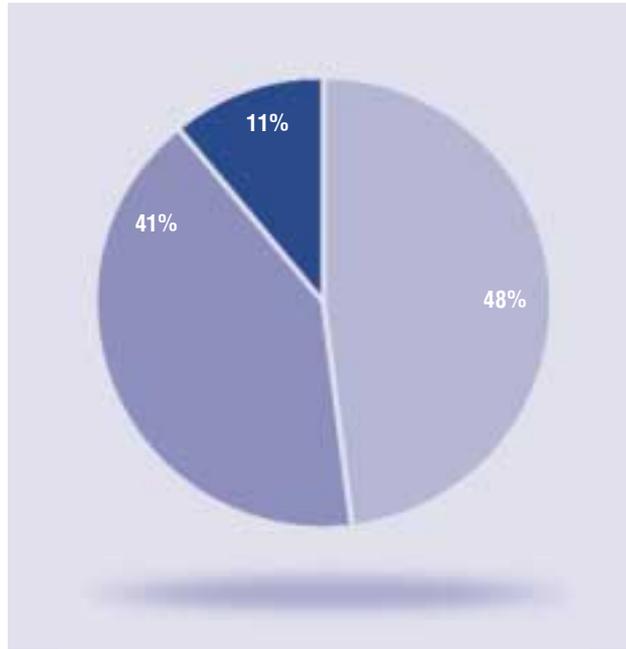


Breakdown of Outgoing International Traffic by Client



- Regional operators
- Subscribers
- Alternative operators

Breakdown of Outgoing International Revenue by Client



- Regional operators
- Subscribers
- Alternative operators



Revenue from International Operators

Rostelecom is the only operator in Russia licensed to carry incoming international traffic. The Company has relationships with 400 international operators, participates in 30 international cable systems, and has direct access to 88 operators in 72 countries.

Over the last few years Rostelecom's volume of incoming international traffic had fallen annually by 3 – 5%, reducing the Company's market share in this sector to 50%. However in 2002, a new commercial strategy succeeded in reversing this trend. In the first quarter of 2002 Rostelecom established a commercial team to work with international operators. The team's main objective was to work closely with the international operators on the mutual optimization of settlement rates.

Over the past 12 months the Company's incoming international traffic volume amounted to 973.3 million minutes, a 12.0% increase over 2001. Revenue from international operators decreased by 23.8%, amounting to USD 127.6 million, due to the sharp reduction in settlement charges.

Incoming International Traffic and Revenue from International Operators



New Telecommunications Services

In 2002, Rostelecom continued to expand the range of services it offers to end-users and operators, keeping pace with the latest telecommunications market trends, new technologies and changes in customer needs.

Integrated Service Digital Network (ISDN) Expansion

In 2002 Rostelecom connected four new Russian regions to its ISDN network. As a result, the Company's ISDN network is now accessible from 57 of Russia's 89 regions. International ISDN services were provided in conjunction with China Telecom. Today, international ISDN services are available in 31 countries for 35 international operators.

Developing the Flexible Multiplexers Network

Thanks to the creation of a modern flexible multiplexers network in 2002, Rostelecom is today in a position to offer its clients digital channels of the required throughput capacity.

At the end of 2002, digital channels capable of running traffic at N*64 kilobytes/second were made available for clients in 110 Russian cities, including Moscow, Yaroslavl, Tver, Kostroma, Kaliningrad, Kazan, Izhevsk, Sochi, Stavropol, Volgograd, Saratov, Samara, Ulyanovsk, Togliatti, Ulan-Ude, Chita and Yoshkar-Ola.

As it becomes commercially viable, Rostelecom will expand its flexible multiplexers network, linking it to new cities and towns throughout Russia.

Intelligent Network Services

Rostelecom continues to actively promote its “Free Phone” (800) services. 2002 revenues from this service increased by more than ten times, with traffic surging by almost 50 times compared to 2001. Thanks to the scope of its network, Rostelecom is the only company in a position to support this service on a federal scale. The Company twice provided a ‘direct line’ to Russia’s President. The 2002 population census hotline was also provided by Rostelecom from May 17 through October 16, 2002.

In addition, in 2002 Rostelecom set up an “International Free Service” (IFS) from Turkey for a major Russian client. In 2003 the Company plans to increase the number of countries from which this service will be available.

The Company also provides “For-Pay” (809) information services, leveraging its intelligent network technology.

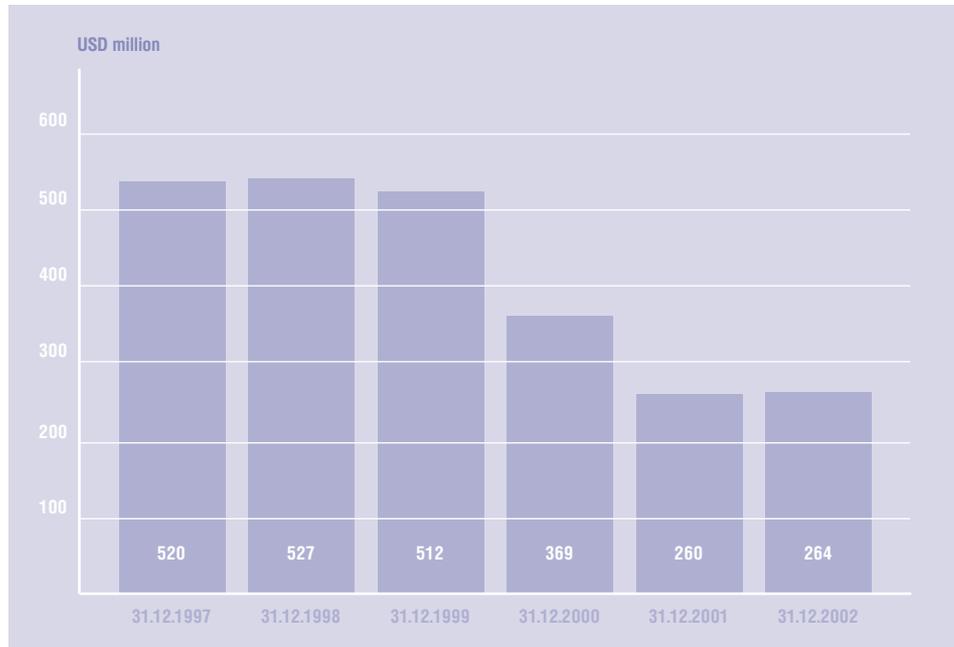
Reducing Rostelecom's Debt

In 2002 Rostelecom continued to reduce its debt load. Loans in the amount of USD 80 million were repaid ahead of schedule, including obligations to Siemens, Merrill Lynch and Telecom Italia. This reduced Rostelecom's interest payments by more than USD 6 million. Additionally, in the first half of 2002 Rostelecom repaid a loan from Russia's Vneshtorgbank at maturity.

As a result, the Company's non-consolidated debt was reduced from USD 227.7 million at the end of 2001 to USD 142.1 million by the end of 2002.

Today Rostelecom's largest liability is a loan from the Russian Ministry of Finance, denominated in Japanese yen, amounting to the equivalent of about USD 120 million, including penalties. In May 2003 the Company submitted to the Ministry of Finance an application for the repayment of its obligations to the federal government in accordance with Government Decree №221 dated April 16, 2003.

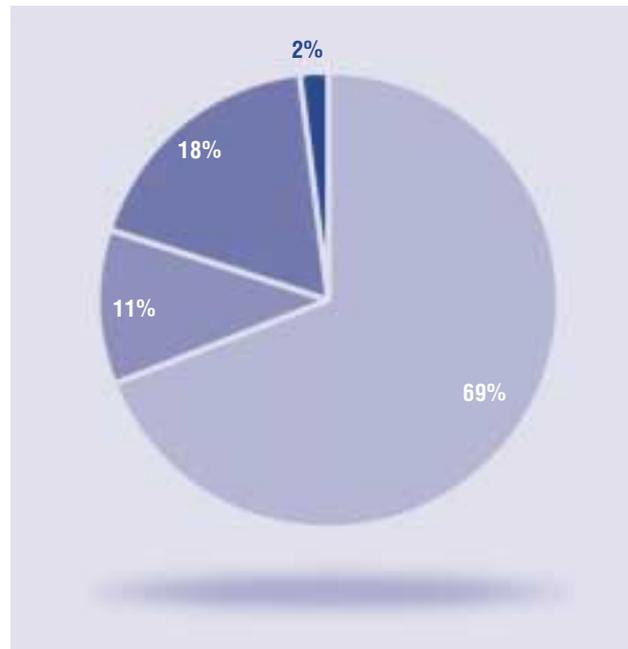
Rostelecom's Consolidated Debt Dynamics



The Company's consolidated debt amounted to USD 263.8 million at the end of 2002 compared to USD 259.5 million at the end of 2001, due to the consolidation of the debt of Rostelecom's subsidiary RTC-Leasing.

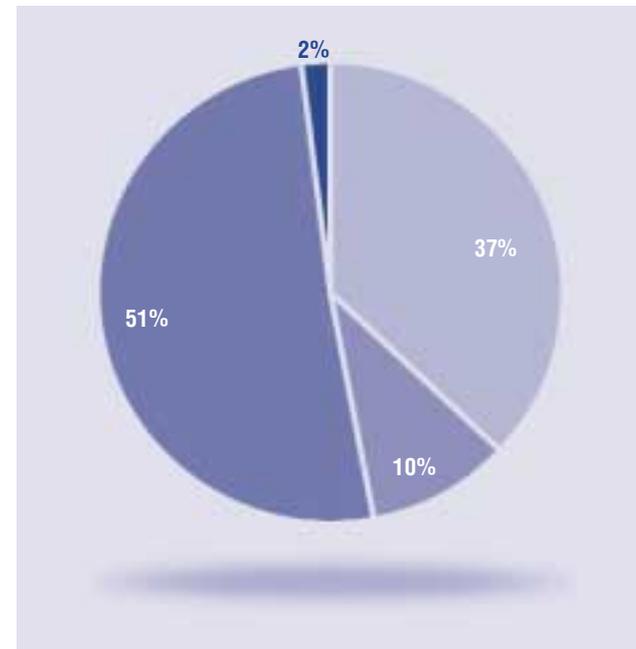
Rostelecom has revised its relationship with RTC-Leasing, as a result of which this subsidiary has started to pursue third-party business development more actively. RTC-Leasing's key clients today are Svyazinvest's regional operators and other companies in the Russian telecommunications sector. This policy was positively received by the general public and the telecommunications market and, according to a rating by Expert magazine, RTC-Leasing took first place among the largest leasing companies in Russia.

Breakdown of Rostelecom's Non-Consolidated Debt by Currency



- Rubles
- US Dollars
- Euro
- Yen

Breakdown of Rostelecom's Consolidated Debt by Currency



- Rubles
- US Dollars
- Euro
- Yen



Key Priorities for 2003

Strengthening Rostelecom's Position in Its Key Markets

Rostelecom's top priority is to prepare for the forthcoming liberalization of the telecommunications market. The Company is undertaking substantial measures to reposition Rostelecom as a commercially successful and competitive operator. One of the key conditions for the Company's success under these new market conditions is the elimination of cross-subsidies. Hence, during 2003 the Company's main objectives are:

- Optimizing the system of settlements between operators for domestic and international long-distance traffic aimed at creating a balanced market model;
- Fostering new business processes and a culture of customer service in order to achieve high quality service standards.

Regional Operators Market

Figure 1. Existing DLD settlement system

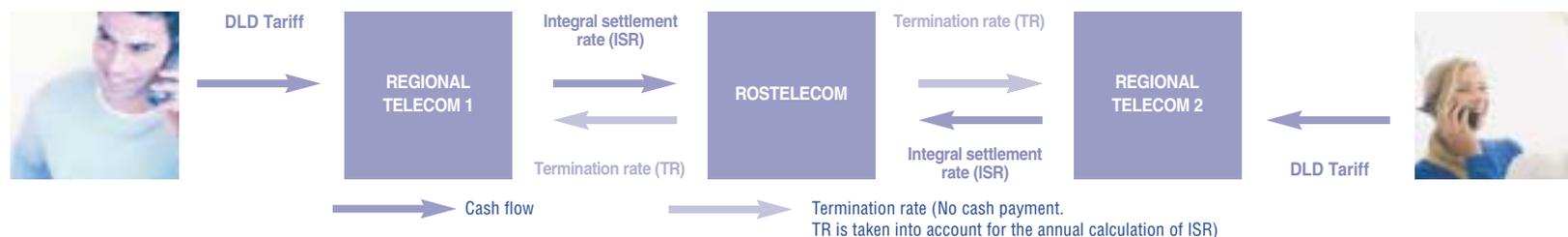
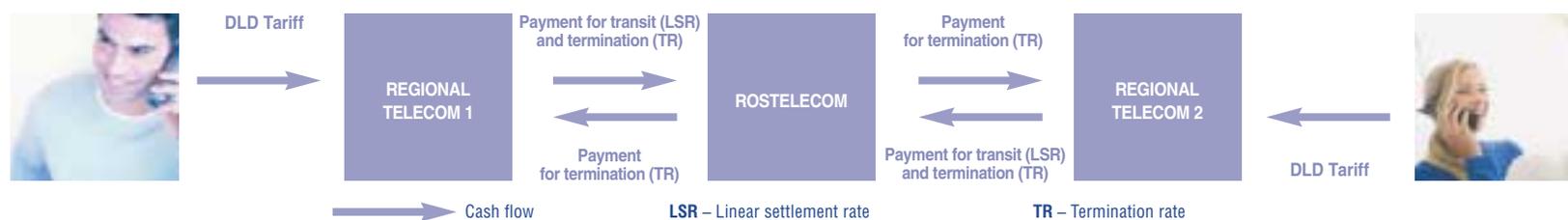


Figure 2. Proposed DLD settlement system



One of the main priorities with the regional operators in 2003 will be the reform of the DLD settlement system through the phasing out of the integral settlement rate (ISR). The current settlement system, based on offsetting payments, lacks transparency and leads to distortions in settlements between Rostelecom and regional telecoms (see Figure 1). This opens opportunities for alternative operators to bypass Rostelecom's network, thus resulting in lower revenues.

Both Rostelecom and the regional operators will benefit from the proposed phasing out of ISR (see Figure 2). This move will significantly improve the transparency of settlements, ensure dynamic accounting to boost trends of traffic growth and incoming vs. outgoing traffic changes, positively impacting both Rostelecom's and the regional operators' revenues. In addition, termination payments by Rostelecom will provide an additional economic incentive for regional operators to develop their local access networks.

After phasing out of ISR, Rostelecom plans to take several additional steps to optimize the settlement system between operators, including:

- Optimizing the level of the linear settlement rate charged for traffic transit by Rostelecom;
- Bringing the termination rate charged by regional operators in line with the local access tariffs;
- Changing the settlement system for international long-distance traffic;
- Optimizing end-user tariffs for international telecommunications services (introducing flexible tariff schemes and an incentive system).

Moscow Market

Moscow is the only region in Russia where Rostelecom has a relationship with end-users, providing domestic and international long-distance services and billing subscribers directly. The Moscow telecommunications market is fiercely competitive, particularly in the corporate customer segment.

Rostelecom's Moscow market share has persistently declined, particularly in this corporate customer segment, resulting in deteriorating revenues from subscribers.

In February 2003 the Company completed assembling a new management team for its Moscow business unit - Intercity and International Telephone (MMT). The professional skills and commercial experience of the new team will facilitate changes in MMT needed to strengthen Rostelecom's position in the Moscow market.

The new team's main objective for 2003 is to stabilize the Company's present position in the Moscow long-distance services market and reverse the persistent decline in revenue.

In order to achieve this objective it will be necessary to address weaknesses with the following measures:

1. Reorganize the technological and business processes within MMT in order to raise the quality of client services through:
 - A customer-focused organizational structure with a dedicated center responsible for sales and client servicing;
 - Introduction of a new information and billing system to optimize the settlement process with subscribers, facilitate the introduction of a flexible tariff policy for different customer groups, and gather data to monitor and improve service quality.

2. Prevent the loss of international and domestic long-distance traffic to alternative operators by:
 - Pursuing a flexible tariff policy for international long-distance services;
 - Lobbying for new methods of state regulation of tariffs for domestic long-distance services that will account for the current market conditions;
 - Introducing a relationship management approach to key clients.

3. Offset the impact of lost long-distance traffic by developing high-tech telecommunications services such as:
 - Intelligent network services (“free phone”, “tele-voting”, etc.);
 - Universal service telephone card:
 - complete creation of a unified technical platform for telephone service cards (integration of telephony with Internet access),
 - introduction of additional information services using the card platform,
 - lobbying for deregulation of telephone card services.

International Operators Market

In 2002 Rostelecom reviewed its international operators strategy and stepped up cooperation with the largest providers. This approach successfully reversed the falling trend in incoming international traffic – over 2002, the Company's incoming international traffic rose by 12% over 2001.

Rostelecom's main objectives for 2003 in the international market segment are as follows:

- Further optimization of settlement rates, closing down unprofitable routes, terminating satellite channels and redirecting traffic to terrestrial cable systems, as well as more efficient traffic routing;
- Reducing the amount of payables and receivables relating to international operators;
- Securing and expanding access to international traffic exchange points, including London and Stockholm, in order to establish agreements with large international alternative operators.

Until mid-2002 Rostelecom worked exclusively with international operators that operate on a national scale. At the same time, the liberalization in most European countries and in the USA has led to the emergence of large alternative operators with significant subscriber bases and traffic volumes, including calls to Russia. One of Rostelecom's main objectives is to develop business with these operators on the international market. To achieve this, the Company is establishing a presence on the main European traffic exchange points. Cooperating with alternative operators will enable Rostelecom to acquire additional traffic volumes that at present bypass its network, and also to reduce the cost of outgoing international traffic.

Efficiency Improvements and Cost Optimization

Reducing Headcount

In 2003 Rostelecom will continue optimizing the internal structure of its business units, phasing out the use of analog equipment, and improving business processes. Further decreases in headcount will be achieved by streamlining the management structure of our operating units and also by releasing low-skilled staff. In 2002, the Company reduced headcount by about 10%, and plans to reduce it by a further 8% in 2003. In conjunction with these plans the Company is also implementing a program to systematize remuneration benefit packages, including salary increases for key professionals.

Phasing out of Analogue Lines and Disposal of Other Underperforming Assets

A priority for 2003 and going forward is to optimize the Company's asset base and divest non-core or underperforming assets.

In 2003 the Company intends to phase out analog lines – amounting to a total length of over 22,000 km. This will help to reduce operating costs significantly, and cut the number of maintenance staff.

Rostelecom Corporate University



The realities of modern business demand Rostelecom's employees to make consistent improvements in their level of professionalism and contributions to the Company. Rostelecom is committed to the education and development of its staff.

Rostelecom's Corporate University was established in 2002 with the aim of developing cutting-edge professional qualifications and management skills among our mid-level executives.



This new form of corporate education enables Rostelecom to train future managers while facilitating team building, which will provide substantial support to the Company's top management in building a world-class organization. These teams will play a major role in advancing the Company's main objective to improve the efficiency and competitiveness of the business. In addition, the Corporate University helps strengthen communications within and across the business units and corporate levels and facilitates direct information exchange between management and staff, Headquarters and business units. It also creates a forum to share experiences and ideas between the Company's executives.

July 2002 saw the introduction of RTK Master, the University's first program, which includes five basic modules: Introduction to Management, Introduction to Marketing and Sales, Human Resources Management, Financial Management, and Project Management. Each module consists of two components: class work with lecturers, and independent project work. There are 6 – 8 week breaks between the modules, and the duration of the RTK Master program is 8-10 months.

Instruction is led by Russian speakers with vast knowledge of their respective subjects. By training young managers and professionals who have been with the Company for a minimum of six months, the corporate University identifies students who are ready to innovate and implement change, and are focused on achieving outstanding results and putting their new knowledge into practice. Each stage of the program gives the opportunity to assess the leadership potential of each candidate, their level of initiative, commitment to the Company's interests, ability to work in a team, and other skills necessary for Rostelecom's future development.

In April 2003 the first RTK Master group graduated from the University. The group was comprised of employees from both the business units and Headquarters. Rostelecom plans to further develop its corporate training programs. In March 2003, the Company's second RTK Master group training began to instruct two additional groups. The Corporate University also has a separate project for senior management from the business units, scheduled to commence in the second quarter of 2003.

Rostelecom – Better Communication and Transparency



More than ever, Rostelecom is devoting significant time and resources to building and maintaining an open dialog with the media, state authorities and other audiences interested in Rostelecom.

Rostelecom's key priority is to develop and implement a unified information policy and maintain a constructive relationship with the media.

The Company's communications program is based around the following principles:

- Transparent and clear unified information policy;
- Regular and timely news flow, giving clear detail on all aspects of the Company's activities;
- Timely responses to all information enquiries addressed to the Company;
- Regular meetings of journalists and public representatives with Company management.

In 2002 the main achievements of the Public Relations Department were as follows:

- Regular newsflow on the reorganization of the Company's regional business units for the media and the general public;
- Successful work with subsidiaries and Svyazinvest, the Company's majority shareholder, on the implementation of a unified information policy;
- Launch of Rostelecom's new corporate website (www.rt.ru/en/)

Rostelecom completed an upgrade of its website to ensure timely disclosure of all information regarding the services and tariffs to clients and also to maintain a closer relationship with media representatives and shareholders.

The Company's new website is divided into two sections. The first section is aimed at customers, business partners, employees, journalists and the public. Here you can find general information on Rostelecom, news about activities, business units and information on the Company's services and tariffs. The second section of the site is specially set up for Rostelecom's shareholders and the financial markets.

In 2002, the PR Department began holding press conferences to build a well-rounded understanding of the Company's diverse range of activities. In the current year, the PR Department will continue to pursue its mission to respond to all questions about the Company with a prompt and thorough answer.

Rostelecom and Corporate Citizenship

Corporate citizenship is a fundamental priority of Rostelecom.

Rostelecom and War Veterans

Each year on May 9, Victory Day, Rostelecom provides a special concession for Veterans of the Second World War. All Veterans in Moscow can use domestic long-distance phone services free of charge. In 2002, this service included free calls not only throughout Russia, but also to the CIS countries and the Baltic States.

Rostelecom and Students

Rostelecom is interested in developing the potential of the Russian telecommunications industry and promotes joint initiatives with telecommunications educational institutions in various Russian regions. In order to support promising students and graduates, the Company offers a grant to students majoring in telecommunications or related subjects at various higher or vocational educational institutions.

The Company also instituted a diploma and scholarship program for the winners of the All-Russian Competition for the best scientific paper on radio, electronics and telecommunications, sponsored by Rostelecom and held at Moscow Technical University for Communications and Informatics (MTUSI). Approximately 40 specialist colleges and universities participated in the 2002 competition.

«As a Russian company, we believe it is important that the country have a large number of talented young specialists. Telecommunications is a vital sector for the Russian economy and its level of development in the 21st century will be an overall indicator of the country's development as a whole.»

*Sergei I. Kuznetsov
General Director, Rostelecom*

Helping Russian Sports

Rostelecom is the General Sponsor of the Russian National Football Team and the Russian Football Union.

Recently, Russia's leading national companies have taken an active role in supporting Russian athletes and sponsoring tournaments and individual teams. Rostelecom wholly supports this development, and in January 2003 the Company became the General Sponsor of Russia's National Football Team and the Russian Football Union (RFU). The Company's sponsorship applies to all official matches in the 2004 European Championship, the World Cup in 2006, and all friendly matches in which the Russian National Team plays.



Today, as never before, our National Football Team needs both corporate involvement and the emotional support of its fans and the whole population, to whom Russia's sporting prowess is important. The closer we are bound together, the stronger our team will become. Modern sporting history provides many examples of this. In countries famous for their football players, football has truly become the national ideal, and this has led directly to undreamed-of success for their national teams.

«In our company we have more than 30,000 employees, including a significant number of football fans. The success of our national football team is important to us all, both as representatives of Rostelecom, the Russian team's general sponsor, and also personally, as individuals. We want to help the RFU to combine the country's need for strong national football with the opportunity to play football. We want talented sportsmen to be able to hone their skills at the highest level, so that the national team players can become world stars. We want to create the conditions in which our players are simply destined to win. And if Rostelecom's efforts as general sponsor of Russian football can help our national team to achieve victory, we will have met our goal.»

*Sergei I. Kuznetsov
General Director, Rostelecom*

Football is a national game in Russia. Rostelecom is Russia's national operator. We have a lot in common.

Corporate Governance

Ownership Structure

Today, Rostelecom's charter capital amounts to RUR 2,428,819.5, divided into 728,696,320 ordinary and 242,831,469 preferred shares, each with a par value of RUR 0.0025 .

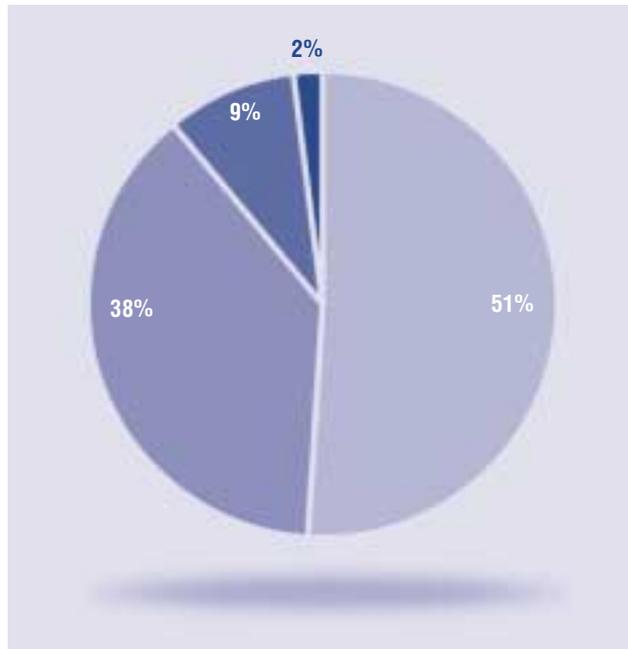
The Company's largest shareholders are as follows:

- Svyazinvest – 38.005% (50.67% of voting shares)
- Non-commercial partnership National Depository Center (nominee holder) – 9.554%
- ING Bank (Eurasia) (depository*) – 18.509%
- ING Bank (Eurasia) (nominee holder) – 5.126%
- Depository-Clearing Company (nominee holder) – 5.029%

* ING Bank (Eurasia) – the depository is Rostelecom's custodian bank for the American Depositary Receipts (ADR) Level II program. Each ADR represents 6 ordinary shares, which are kept in the custodian bank as security.

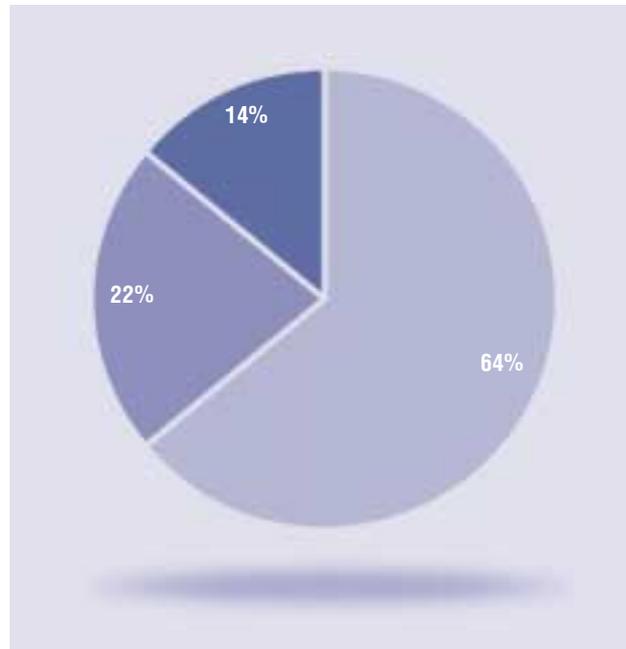
The total number of Rostelecom shareholders is 21,714, including 211 legal entities and 21,503 individuals.

Ownership Structure, Ordinary Shares



- Svyazinvest
- Foreign shareholders
- Russian shareholders
- Rostelecom employees

Ownership Structure, Preferred Shares



- Foreign shareholders
- Rostelecom employees
- Russian shareholders

Dividend policy

Rostelecom believes that dividends are an efficient means to provide shareholders with the opportunity to share in the Company's success. All individuals and legal entities appearing on the shareholders' register at the record date are entitled to receive a dividend.

The Company's Board of Directors makes a recommendation each year on the dividends and method of payment. The declared dividend is then approved by the shareholders at the annual general meeting. In determining the size of dividend, the directors must consider the Company charter, which entitles holders of preferred shares to a dividend equivalent to 10% of the year's net profits in accordance with Russian accounting standards (RAS). Should the AGM decide to make no dividend payment to holders of preferred shares, or to pay a sum that is less than 10% of RAS net profits, then preferred shares holders acquire the right to vote on all agenda items at the next AGM. In addition, the amount of the dividend per ordinary share may not exceed the dividend per preferred share.

Dividend history

	1999	2000	2001	2002**
Dividends, RUR	344,052,297	222,102,371	379,591,800	705,566,719
% of net profit* paid to preferred shareholders	10%	10%	10%	10%
Dividend per preferred share	0.8093	0.4243	0.9195	1.27472
% of net profit* paid to ordinary shareholders	6.1%	11.6%	7%	12.8%
Dividend per ordinary share	0.1645	0.1634	0.2145	0.54347

* according to Russian accounting standards

** size of dividend recommended by the Board of Directors for AGM approval

Corporate Governance Standards

Compliance with Russian and international corporate governance standards is an important condition for Rostelecom's business success. This builds confidence in Rostelecom in the financial markets and establishes a stronger basis for mutual understanding with all the Company's stakeholders.

As a company with a first level listing on the largest Russian stock exchanges, RTS and MICEX, and a listing on the New York Stock Exchange, Rostelecom must conform to the highest standards of corporate governance.

At the same time, Rostelecom's management is continuously seeking to improve the Company's corporate practices. It is striving to comply with the new demands of the Sarbanes-Oxley Act, as approved by the US Congress in July 2002, which sets new standards in corporate governance and information disclosure for companies whose shares are traded in the US equity markets.

The formation of an Audit Committee, reporting to the Board of Directors, the adoption of a management Code of Ethics, the formalization and systematization of procedures for internal monitoring, and more detailed and precise disclosure of financial information are by no means an exhaustive list of the new standards which Rostelecom's management is determined to meet.

In addition, the Company is working on a Code of Corporate Conduct, which was announced on acceptance of the Company's Declaration of Principles of Corporate Governance at a meeting of the Board on April 11, 2002.

Board of Directors

Chairman of the Board

Valery N. Yashin
General Director of Svyazinvest

Members of the Board:

Vadim Y. Belov
Deputy General Director of Svyazinvest

Nikolai P. Yemelyanov
Regional Director of Novgorodtelecom, a branch of North-West Telecom

Sergei I. Kuznetsov
General Director, Rostelecom

Aleksandr V. Lopatin
Deputy General Director of Svyazinvest

Anton I. Osipchuk

Stanislav N. Panchenko
Deputy General Director of Svyazinvest

Viktor A. Polishchuk
President of Russian Telecommunications Network

Irina M. Ragozina
Director of Corporate Governance Department of Svyazinvest

Mikhail V. Slipenchuk
General Director of METROPOL Investment Company

Grigory M. Finger
Authorized Representative of Lindsell Enterprises Ltd.

Management Board (as of April 15, 2003)

Chairman of the Management Board



Sergei I. Kuznetsov
General Director of Rostelecom

Board members:



Sergei L. Akopov
Deputy General Director
Administrative Director of Rostelecom



Vladimir I. Androsik
Deputy General Director
Finance Director of Rostelecom



Dmitry Y. Yerokhin
First Deputy
General Director of Rostelecom



Vadim Y. Izotov
Deputy General Director
IT Director of Rostelecom



Igor A. Kalugin
First Deputy General Director of Rostelecom
Director of Intercity and International Telephone
(MMT) – branch of Rostelecom



Aleksandr V. Lopatin
Deputy General Director of Svyazinvest



Aleksandr A. Lutsky
Chief Accountant of Rostelecom



Vladimir K. Mironov
Deputy General Director of Rostelecom



Marina D. Oleshek
Deputy General Director
Director for Organizational Development and
Human Resources of Rostelecom



Vladimir V. Terekhov
Deputy General Director
Technical Director of Rostelecom



Gioulnara S. Khasianova
Deputy General Director
Commercial Director of Rostelecom

Rostelecom Securities

The commencement of trading in the Company's shares in the Russian Trading System (RTS) in 1995 was a significant event in the Company's life, marking the beginning of its relationship with the investment community. The Launch of a Level II American Depositary Receipts (ADR) program with Rostelecom's listing on the New York Stock Exchange in 1998 broadened Rostelecom's investor and shareholder base, and introduced the Company to the international equity markets.

Today, the Company's ordinary and preferred shares are quoted on Russia's largest stock exchanges, including RTS and MICEX. In addition to the listing on the New York Stock Exchange, ADRs on Rostelecom ordinary shares are traded on many European trading floors, including London and Frankfurt, among others.

The Company's ADR program is administered by JP Morgan, one of the world's largest depository banks.

Domestic Equity Market

Share Type	Ordinary shares	Preferred shares
Overall number	728,696,320	242,831,469
Free float	49.3%	100%
Par value, RUR	0.0025	0.0025

Trading Floor	Share Type	Symbol	Trading Currency
RTS (Russian Trading System)			
	Ordinary	RTKM	USD
	Preferred	RTKMP	USD
MICEX (Moscow Interbank Currency Exchange)			
	Ordinary	RU0009046700	
		RU14RTKP2009	RUR
	Preferred	RU0008943394	
		RU14RTKM2017	RUR

ADR Market

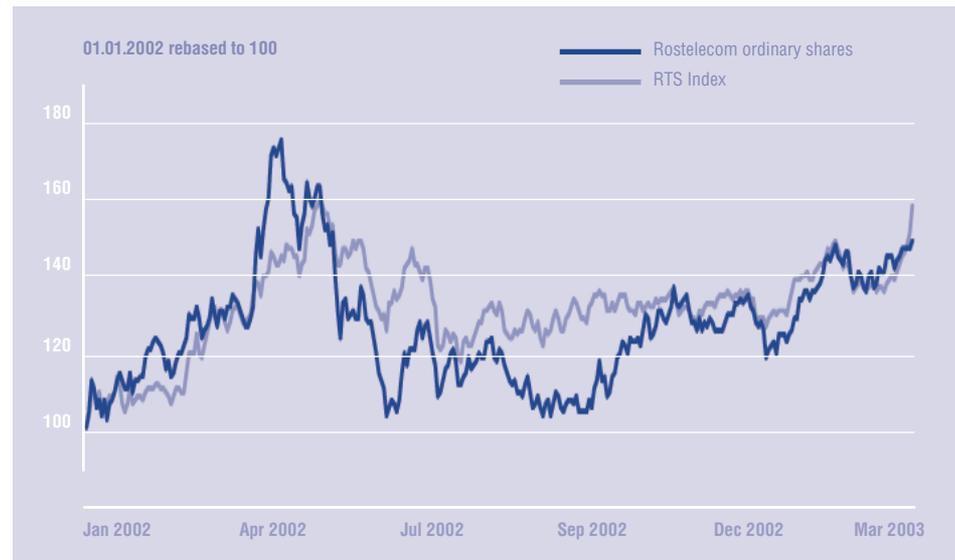
ADR program level	II
Symbol	ROS
CUSIP	778529107
ADR ratio (the number of ordinary shares per one ADR)	1: 6
Depository bank	JP Morgan
Custodian bank	ING Bank (Eurasia)

Trading Floor	Symbol	Trading Currency
New York Stock Exchange	ROS	USD
London Stock Exchange	RKMD	USD
Frankfurt Stock Exchange	RTL	Euro

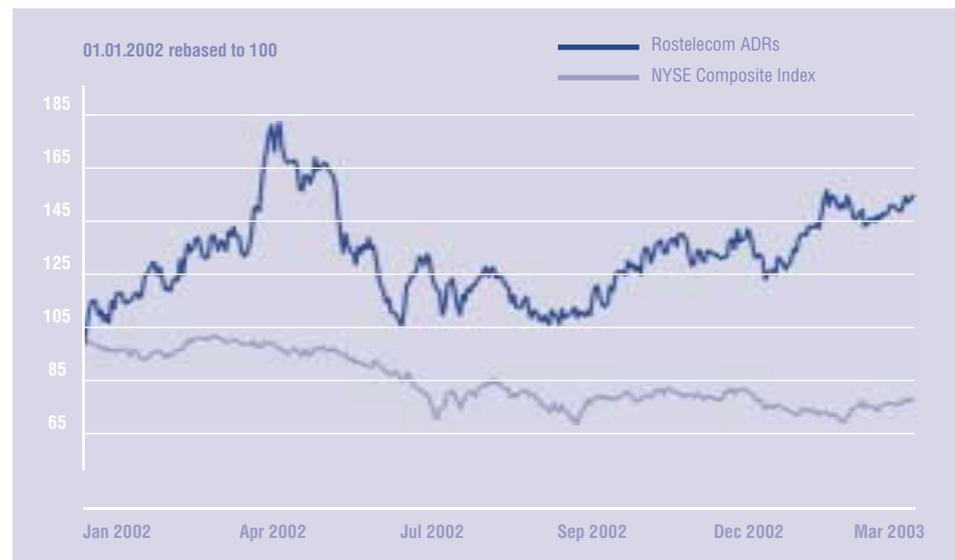
Trading Volumes of Rostelecom Shares and ADRs on the Major Russian and International Stock Exchanges in 2002

Trading system	Type of shares	2001 trading volume, USD	2002 trading volume, USD
New York Stock Exchange	ADRs	118,479,717	176,071,671
Moscow Interbank Currency Exchange (MICEX)	Ordinary and preferred shares	352,868,843	1,600,863,466
Russian Trading System (RTS)	Ordinary and preferred shares	102,562,721	181,228,621
Total		573,911,281	1,958,163,758

Ordinary Share Price Performance Relative to the RTS Index



ADR Price Performance Relative to the NYSE Composite Index



Investor Relations

Rostelecom continues to ensure the highest standards of information disclosure in order to build a strong relationship with shareholders and the global financial markets.

The key objective of Rostelecom's IR Program is to maintain a continuous dialogue with the investment community.

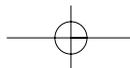
In 2002 a standard set of disclosure materials was developed. This consists both of regulatory filings, made pursuant to applicable legislation and requirements of financial authorities in Russia and the US, and also of material information and news of interest to the investment community. Today Rostelecom's materials include the following:

- Quarterly and annual press releases on operating and financial results, prepared both in accordance with Russian accounting standards (RAS) and International Financial Reporting Standards (IAS);
- Quarterly issuer's reports supplied to the Russian Federal Securities Committee and Russian stock exchanges;
- Annual Form 20-F and regular reports on Form 6-K, filed with the US Securities and Exchange Commission and the New York Stock Exchange;
- Company annual report
- Presentations for investors and analysts;
- Press releases on key events and material developments that are of interest to the market and could influence investment decisions.

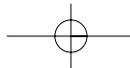
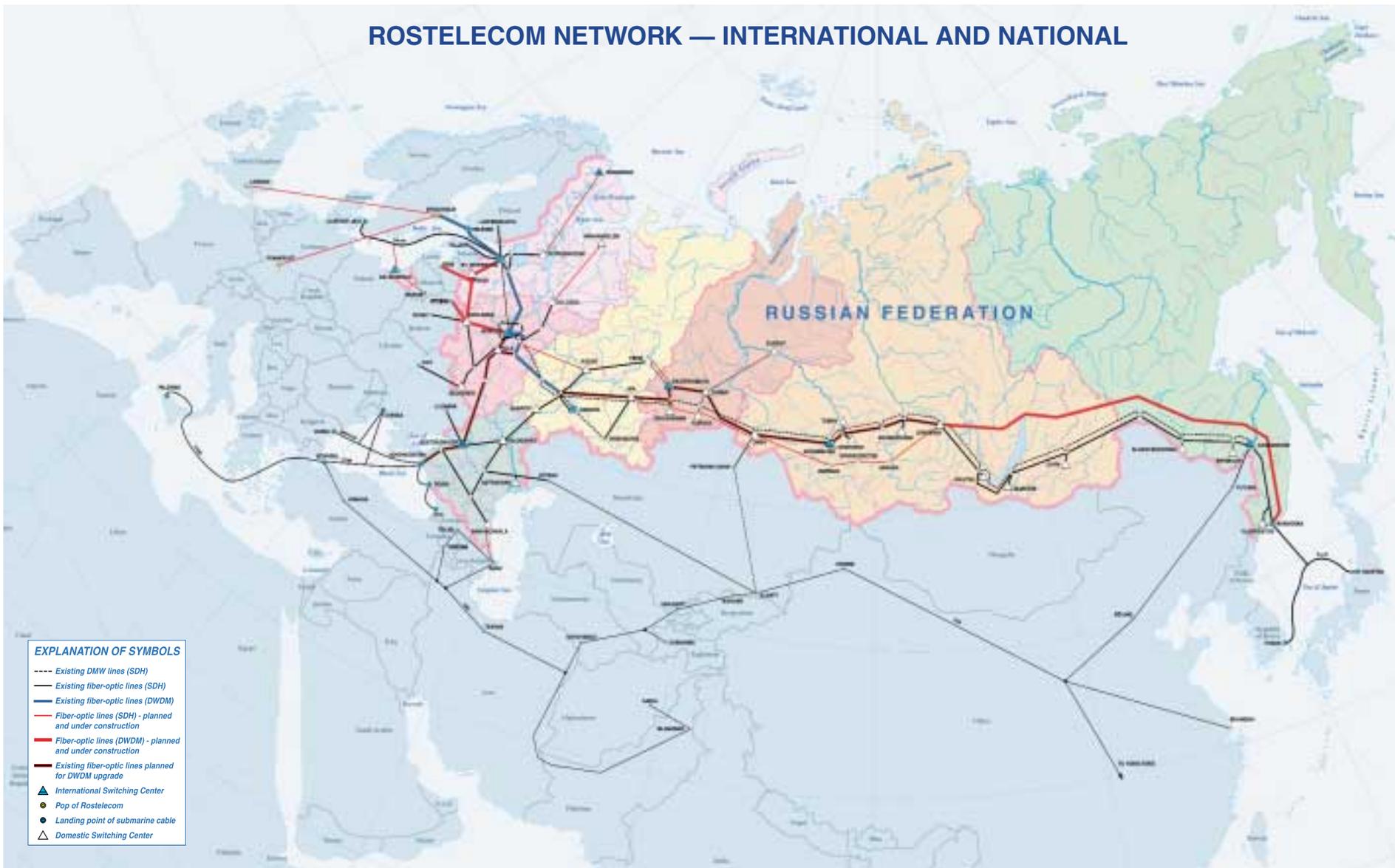
We fully understand the importance that investors attach to the opportunity to have face-to-face meetings with senior representatives of the Company's management. Therefore, in 2002 Rostelecom participated in numerous one-on-ones at conferences organized by leading investment banks in Moscow, the UK and the US. We also participated in the Harvard New Investment Opportunities in Russia symposium, held in Boston, and conducted meetings with investors during road shows in Europe, the UK, and the US. Finally, we are always pleased to welcome investors to our Moscow office.

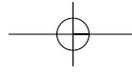
For the first time in 2002 we began holding quarterly conference calls to discuss the Company's financial results. In 2003 we plan to accompany these conference calls with simultaneous webcasts.

In 2002 we developed and launched a new Investor Center on our corporate website, accessible at www.rt.ru/en/center/. It contains information for analysts and investors interested in Rostelecom, including financial statements, share price quotes, information on corporate governance, share capital, shareholders' meetings, and our dividend policy. If information is not accessible on the website, the IR team can be contacted at any time, either directly or by using the Feedback function on the site. Improvements will continue to be made to our Investor Center in 2003 to make it the most convenient source of information.



ROSTELECOM NETWORK — INTERNATIONAL AND NATIONAL

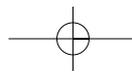
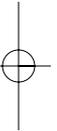
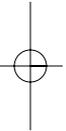


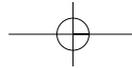


ОАО РОСТЕЛЕКОМ

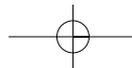
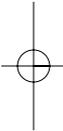
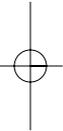
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS

FOR THE YEAR ENDED DECEMBER 31, 2002





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Statement of Directors' Responsibilities

To the Shareholders of OAO Rostelecom

1. International convention requires that management prepare consolidated financial statements which present fairly, in all material respects, the state of affairs of the Group at the end of each financial period and of the results and cash flows for each period. Management are responsible for ensuring that all Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards and that their statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
2. Management considers that, in preparing the consolidated financial statements set out on pages 69 to 128, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that appropriate International Financial Reporting Standards have been followed.
3. The consolidated financial statements, which are based on the statutory accounting reports adjusted to comply with International Financial Reporting Standards, are hereby approved on behalf of the Board of Directors.

For and on behalf of the Board of Directors:

S.I. Kuznetsov
General Director



Report of Independent Auditors



To the Shareholders of OAO Rostelecom:

We have audited the accompanying consolidated balance sheet of OAO Rostelecom, an open joint stock company, and its subsidiaries (hereinafter referred to as the "Group"), as of December 31, 2002, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board.

Ernst & Young (CIS) Limited

Moscow, Russia

June 6, 2003

OAO Rostelecom

CONSOLIDATED BALANCE SHEETS

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

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	Notes	December 31, 2002	December 31, 2001
ASSETS			
Property, plant and equipment, net	6	56,278	62,677
Investments in associates	8	2,635	1,239
Long-term financial investments	9	578	–
Goodwill	10	39	–
Negative goodwill, net of current portion	7, 10	(240)	–
Lease receivables	11	2,713	676
Other non-current assets	6	356	–
Non-current assets		62,359	64,592
Inventory		502	664
Accounts receivable, net	12	8,617	8,533
Short-term investments	13	4,575	3,238
Short-term portion of negative goodwill	7, 10	(471)	–
Cash and cash equivalents	14	3,642	2,222
Current assets		16,865	14,657
TOTAL ASSETS		79,224	79,249
SHAREHOLDERS' EQUITY, MINORITY INTEREST AND LIABILITIES			
Share capital	15	100	100
Retained earnings		48,933	48,654
Total shareholders' equity		49,033	48,754
Minority interest	16	2,825	1,929
Accounts payable and accrued expenses	17	5,162	5,862
Amounts owed to customers		1,003	–
Taxes payable		2,253	2,072
Current portion of interest bearing loans	18	4,529	6,709
Short-term borrowings	19	1,537	1,204
Current liabilities		14,484	15,847
Interest bearing loans – net of current portion	18	2,317	1,091
Non-current accounts payable		262	379
Deferred tax liability	20	10,303	11,249
Non-current liabilities		12,882	12,719
Total liabilities		27,366	28,566
TOTAL SHAREHOLDERS' EQUITY, MINORITY INTEREST AND LIABILITIES		79,224	79,249
Commitments and contingencies	29 and 30	–	–

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

OAO Rostelecom

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Notes	Year ended December 31,		
		2002	2001	2000
REVENUE				
Local operators		14,016	13,337	12,256
Subscribers		7,913	8,648	10,358
Foreign operators		5,100	6,852	9,860
Other		1,112	1,432	1,611
TOTAL REVENUE	21	28,141	30,269	34,085
OPERATING EXPENSES				
Wages, salaries, other benefits and payroll taxes		(3,704)	(3,877)	(4,210)
Depreciation		(9,106)	(7,997)	(7,627)
Charges by network operators – international		(5,779)	(7,438)	(9,145)
Charges by network operators – national		(1,707)	(2,190)	(2,274)
Administration and other costs		(3,454)	(3,349)	(4,892)
Taxes other than on income		(872)	(1,635)	(1,445)
Repairs and maintenance		(452)	(637)	(656)
Bad debt (expense) / recovery		(863)	28	(361)
Loss on sale of property, plant and equipment	6	(449)	(554)	(125)
TOTAL OPERATING EXPENSES		(26,386)	(27,649)	(30,735)
Operating profit		1,755	2,620	3,350
Gain / (loss) from associates (excluding related tax)	8	393	(35)	634
Interest expense		(869)	(1,515)	(2,825)
Interest income		430	131	158
Income from sale of investments	13	1,840	–	–
Other non-operating income, net	23	556	84	92
Foreign exchange (loss) / gain, net		(983)	291	627
Monetary gain		165	2,472	1,782
INCOME BEFORE TAX AND MINORITY INTEREST		3,287	4,048	3,818
Current tax charge	24	(2,998)	(2,987)	(2,229)
Deferred tax benefit /(charge)	24	1,593	4,029	(2,644)
Share in income taxes of associates	24	(133)	(161)	(215)
INCOME TAX (EXPENSE) / BENEFIT		(1,538)	881	(5,088)
INCOME / (LOSS) AFTER TAXATION		1,749	4,929	(1,270)
Minority interest	16	(1,071)	(322)	(1,190)
NET INCOME / (LOSS)		678	4,607	(2,460)
Earnings / (loss) per share – basic and diluted	26	Rubles 0.61	Rubles 6.15	Rubles (3.85)

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

OAO Rostelecom

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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	Note	Year ended December 31,		
		2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income before taxation and minority interest		3,287	4,049	3,818
<i>Adjustments to reconcile net income before taxation and minority interest to cash generated from operating activities:</i>				
Depreciation	6	9,106	7,997	7,627
Bad debt expense /(recovery)	12	863	(28)	–
Share in (income) / loss of associates	8	(393)	35	(634)
Loss on disposal of property, plant and equipment		449	554	125
Income from sale of investments		(1,840)	–	–
Net interest and other non-operating (income)/expense		(117)	1,300	2,575
Equity-based compensation		–	279	–
Other non-monetary income		(77)	–	–
Foreign exchange loss / (gain)		983	(291)	(633)
Gain on net monetary position		(165)	(2,472)	(1,782)
<i>Changes in net working capital:</i>				
Decrease / (increase) in accounts receivable		600	(260)	1,365
(Increase) / decrease in lease receivables		(3,408)	482	(1,040)
Decrease / (increase) in inventories		187	71	(340)
Increase / (decrease) in payables and accruals		691	(661)	342
CASH GENERATED FROM OPERATIONS		10,166	11,055	11,423
Interest paid		(1,270)	(1,375)	(3,144)
Interest received		375	131	158
Income tax paid		(3,558)	(2,848)	(1,492)
NET CASH PROVIDED BY OPERATING ACTIVITIES		5,713	6,963	6,945
Cash flows from investing activities				
Purchase of property, plant and equipment		(2,281)	(2,020)	(3,491)
Proceeds from sale of property, plant and equipment		23	25	–
Purchase of subsidiaries, net of cash acquired		(1,138)	–	–
Purchase of available-for-sale investments (securities), net		(2,198)	(1,637)	(1,460)
Proceeds from sale of available-for-sale investments, net of direct costs		1,970	766	1,529
Advances to investee and other companies		(1,020)	–	–
Advances to investee and other companies returned		1,046	–	–
Purchase of investments		–	–	(326)
Dividends received from associates		97	98	–
NET CASH USED IN INVESTING ACTIVITIES		(3,501)	(2,768)	(3,748)
Cash flows from financing activities				
Proceeds from bonds issue	16	1,532	1,669	–
Redemption of bonds	16	(1,021)	(576)	–
Drawdown of interest bearing loans		5,879	3,389	3,847
Repayment of interest bearing loans		(6,165)	(7,288)	(7,665)
Proceeds from notes issue		1,344	–	–
Redemption of notes		(1,347)	–	–
Dividends paid		(363)	(248)	(439)
Dividends paid to minority shareholders of subsidiary		(294)	–	–
Proceeds from sale of additional ordinary shares by subsidiary		24	(201)	–
NET CASH USED IN FINANCING ACTIVITIES		(411)	(3,255)	(4,257)
Effect of exchange rate changes on cash and cash equivalents		36	36	9
Net increase/(decrease) in cash and cash equivalents		1,837	976	(1,051)
Monetary effects on cash		(417)	(329)	(158)
Cash and cash equivalents at beginning of period		2,222	1,575	2,784
Cash and cash equivalents at the end of period		3,642	2,222	1,575
<i>Non-monetary transactions:</i>				
Non-cash additions to property, plant and equipment		103	1,882	1,782
Financial instruments received in connection with disposition of property, plant and equipment		545	–	–

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

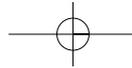
OAO Rostelecom

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Note	Share capital	Treasury shares	Retained earnings	Total
Balance at December 31, 1999		100	(2)	47,192	47,290
Treasury shares elimination		–	2	(2)	–
Dividends		–	–	(414)	(414)
Net loss for the year		–	–	(2,460)	(2,460)
Balance at December 31, 2000		100	–	44,316	44,416
Dividends	15	–	–	(269)	(269)
Net income for the year		–	–	4,607	4,607
Balance at December 31, 2001		100	–	48,654	48,754
Dividends	15	–	–	(399)	(399)
Net income for the year		–	–	678	678
Balance at December 31, 2002		100	–	48,933	49,033

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



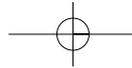
1. REPORTING ENTITY

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

The Company's headquarters are located in Moscow at 1st Tverskaya-Yamskaya street, 14.

The accompanying consolidated financial statements incorporate the results of operations of the Company and its subsidiaries, as detailed in Note 7.

Rostelecom was established as an open joint stock company on September 23, 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia No. 1507-r, dated August 27, 1993. As of December 31, 2002, the Government of the Russian Federation controlled indirectly 50.67% of the voting share capital of the Company, by virtue of its 75% less one share direct holding in OAO Svyazinvest ("Svyazinvest"), the parent company of Rostelecom.



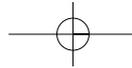
2. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board.

The Group maintains its accounting records and prepares its statutory accounting reports in accordance with Russian accounting legislation and instructions in Russian Rubles. The accompanying consolidated financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with the standards and interpretations prescribed by the International Accounting Standards Board.

The consolidated financial statements have been prepared using the historical cost convention, restated for the effects of inflation and modified by the initial valuation of property, plant and equipment as further disclosed in Note 5 to the accompanying consolidated financial statements. The functional currency of the Group and the reporting currency for the accompanying consolidated financial statements is the Russian Ruble (Rbl).

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



3. OPERATING ENVIRONMENT OF THE COMPANY

General

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

Currency exchange and control

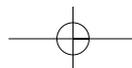
Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Russia. Following the 1998 economic crisis, the Ruble's value fell significantly against the US Dollar, falling from a pre-crisis rate of approximately 6 Rubles to 1 US Dollar, to 27 Rubles to 1 US Dollar by the end of 1999. During 2000, 2001 and 2002, the Ruble's value fluctuated between 26.9 and 31.8 to 1 US Dollar. As of June 6, 2003, the exchange rate was 30.65 Rubles to 1 US Dollar.

The following table summarizes the exchange rate of the Ruble to 1 US Dollar for the years ended December 31, 2002, 2001 and 2000.

As of December 31,	Exchange Rate
2002	31.78
2001	30.14
2000	28.16

Source: Central Bank of Russia

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



Inflation

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

For the year ended December 31,	Annual inflation
2002	15.1%
2001	18.8%
2000	20.2%

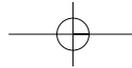
Source: Goskomstat of Russia

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

Taxation

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), turnover based taxes, and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies. Therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters), are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems. In recent years, the Russian government has initiated revisions of the Russian tax system. Effective January 1, 1999, the first part of the Tax Code was enacted. Effective January 1, 2001, the second part of the Tax Code was enacted. The new tax system is generally intended to reduce the number of taxes and, thus, the overall tax burden on businesses, and to simplify the tax laws.

Refer to Note 30 for description of possible tax contingencies.



4. ACCOUNTING FOR THE EFFECTS OF INFLATION

IFRS 29, "Financial Reporting in Hyperinflationary Economies", requires that financial statements prepared on a historic cost basis be adjusted to take account of the effects of inflation, for entities reporting in hyperinflationary economies. The accompanying consolidated financial statements have been restated in terms of the measuring unit current at the latest presented balance sheet date and the net gains or losses arising on the net monetary position of assets and liabilities during the periods presented have been included in the statement of operations and disclosed separately. The Group has utilized the general price index reported by the State Committee on Statistics of the Russian Federation ("Goskomstat") in the application of IFRS 29. The application of IFRS 29 to specific categories of transactions and balances within the consolidated financial statements is set out as follows:

Corresponding figures

Corresponding figures for the previous reporting periods have been restated by applying to the amounts included in the previous years' financial statements the change in the general price index.

Comparative financial information is therefore presented in terms of the measuring unit current as of December 31, 2002, being the latest date for which financial statements are presented.

Monetary assets and liabilities

Cash and cash equivalents, available-for-sale investments, receivables, payables, interest bearing loans, current taxation and dividends have not been restated as they are monetary assets and liabilities and are stated in Rubles current at the balance sheet date.

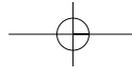
Gains or losses on the net monetary position of assets and liabilities which arise as a result of inflation, are computed by applying the change in the general price index to the monetary assets and monetary liabilities during the period.

Non-monetary assets and liabilities

Non-monetary assets and liabilities are restated from their historic cost or valuation by applying the change in the general price index from the date of recognition to the balance sheet date.

Consolidated statements of operations and cash flows

Items included in the consolidated statement of operations and cash flows are restated by applying the change in the general price index from the dates when the items were initially recorded to the balance sheet date.



5. PRINCIPAL ACCOUNTING POLICIES

Set out below are the principal accounting policies used to prepare the accompanying consolidated financial statements:

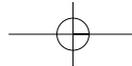
Principles of consolidation

The Group comprises the Company, its subsidiaries and associates. Transactions and balances between the Company and its subsidiaries are eliminated, and accounting policies of the subsidiaries are adjusted to conform to those of the Group. A subsidiary is an entity that is controlled by the Company, either through ownership, directly or indirectly, of more than 50 percent of the voting share capital of the entity, or other means.

The excess of purchase price paid over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired is recognized as goodwill and is depreciated during its expected useful life. The excess of the fair value of acquired identifiable net assets over purchase price paid is reflected as negative goodwill and is depreciated over the remaining weighted average useful life of identifiable non-current assets acquired, unless other method is more appropriate based on the expected use of non-current assets. The excess of negative goodwill over fair value of identifiable non-monetary assets acquired is recognized as income in the period of acquisition.

Associates in which the Group has significant influence but not a controlling interest are accounted for using the equity method of accounting. Significant influence is usually demonstrated by the Group owning, directly or indirectly, between 20 per cent and 50 per cent of the voting share capital or by exerting significant influence through other means. The Group's share of the net income or losses of associates is included in the consolidated statement of operations, and the Group's share of the net assets of associates is included in the consolidated balance sheet. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment. Unrealized profits that arose from transactions between the Group and its associates were eliminated in the proportion to the Group's share in such associates, and unrealized losses were excluded in the proportion to the Group's share in such associates, if there is no evidence of indicators of impairment of an asset transferred.

In case the share in an entity from 20% to 50% is acquired with intention to sell it in a foreseeable future, such investment is accounted for as investment available-for-sale.



Property, plant and equipment

For the purpose of determining the opening balance sheet on the first application of IFRS at January 1, 1994, the Company performed a valuation of the property, plant and equipment, as reliable historical cost information and information regarding acquisition dates was not available. A brief description of the methodology applied in performing this valuation is set out below for each major asset category:

- Buildings and site services - current replacement cost;
- Cable and transmission devices - current replacement cost;
- Telephone exchanges - modern equivalent asset;
- Assets in course of construction - indexed historic cost.

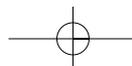
Cost or valuation of the network comprises all expenditures up to and including the cabling and wiring to the local telephone operator's intercity exchange, and includes contractors' charges and payments on account, materials, direct labor, and interest costs on specific project financing up to the date of commissioning of the relevant assets.

Subsequent expenditures are capitalized if it can be clearly demonstrated that they extend the life of the asset or significantly increase its revenue generating capacity beyond its originally assessed standard of performance. Expenditure for continuing repairs and maintenance are charged to the statement of operations as incurred. Social assets are expensed on acquisition.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the determination of net income.

Depreciation is calculated on property, plant and equipment on a straight-line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Number of years
Buildings and site services:	10 – 50
Cable and transmission devices:	
■ Channels	10 – 40
■ Cable	30 – 40
■ Radio and fixed link transmission equipment	15 – 20
■ Telephone exchanges	15
Other	5 – 10



The useful lives and depreciation methods are reviewed periodically to ensure that the methods and the periods of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

At each balance sheet date an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognized immediately as an expense in the statement of operations. Any subsequent increase in the recoverable amount of the assets would be written back when the circumstances that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. Increase of the recoverable amount is limited to the lower of its recoverable amount and carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

The recoverable amount is determined as the higher of the assets: net selling price and value in use. The value in use of the assets is estimated based on forecast future cash inflows and outflows to be derived from continuing use of the assets and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate.

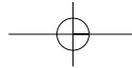
Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction in progress is not depreciated until the constructed or installed asset is ready for its intended use.

Finance leases

Upon inception of a finance lease the Group records the net investment in leases, which consists of the sum of the minimum lease payments and unguaranteed residual value (gross investment in lease) less the unearned finance lease income. The difference between the gross investment and its present value is recorded as unearned finance lease income. The unearned finance lease income is amortized over the life of the lease using the constant interest rate method.

With the exception noted below, the date of inception of the lease is considered to be the date of the lease agreement or commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties to the transaction, and shall specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed or has not been acquired by the Group at the date of the lease agreement or commitment, the inception of the lease shall be the date when construction of the property is completed or the property is acquired by the Group. Any advance payments made by the lessee prior to commencement of the lease reduce the net investment in lease.

The Group records capital expenditures related to acquisition of equipment subject to leasing as equipment purchased for leasing purposes. These expenditures are being accumulated until the equipment is ready for use and being transferred to the lessee.



Inventory

Inventory principally consists of fuel and spare parts for the network. Inventory is stated at the lower of cost incurred in bringing each item to its present location and net realizable value. Cost is calculated on a first in first out basis. Items used in the construction of new plant and equipment are capitalized as part of the related asset. Inventory used in the maintenance of equipment is charged to operating costs as utilized and included in repair and maintenance and other costs in the accompanying consolidated statements of operations.

Construction contracts

When the result from a construction contract can be measured reliably, revenues and expenses from it are accounted for in the consolidated statement of operations based on the stage of completion of the contract. Losses expected from the contract are recognized in the statement of operations immediately.

Accounts receivable

Receivables are stated in the balance sheet at the fair value of the consideration given and are carried at amortized cost, after provision for impairment. Bad debts are written off in the period in which they are identified.

Provision for impairment is created based on the historical pattern of collections of accounts receivable and specific analysis of significant accounts.

Investments

Investments are classified into the following categories: loans and receivables originated by the Group, held-to-maturity, trading and available-for-sale. Loans and receivables originated by the Group are financial assets created by providing money, goods or services directly to a debtor, unless they are originated with the intent to be sold immediately. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments are classified as available-for-sale.

The Group had no securities classified as held-to-maturity or trading at December 31, 2002 and 2001. Loans and receivables originated by the Group, including lease receivables are stated at amortized cost determined on individual basis. Available-for-sale investments are stated at fair value determined on an individual investment basis. Unrealized gains and losses are included in the determination of net income. Income from available-for-sale investments is included in other non-operating income in the consolidated statement of operations. Interest income from investments is accrued during the period in which it is earned.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments with original maturities of three months or less, with insignificant risks of diminution in value.

Deferred income taxes

Deferred income taxes are determined utilizing the balance sheet liability method. This method gives consideration to the future tax consequences associated with the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Under this method deferred taxes are required to be recognized for all temporary differences with certain specific exceptions. Temporary timing differences primarily arise on the recognition of property, plant and equipment, receivables and payables in different accounting periods to those permitted under the Russian accounting regulations.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset will be realized or the liability settled. Tax rates are based on laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized when it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

Revenue and operating costs recognition

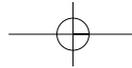
Revenue and operating costs for all services supplied and received are recognized at the time the services are rendered. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be reliably measured.

The Company charges regional telephone operators and other telecommunication service providers in Russia either an agreed proportion of the amounts they collect from subscribers or an agreed settlement rate based on traffic minutes. For outgoing telephone traffic originating in Moscow, subscribers are charged directly by the Company.

The Company charges amounts to foreign network operators for incoming calls and other traffic that originate outside Russia.

The Group is charged by foreign operators for completing international calls.

These revenues and costs are shown gross in these financial statements, and exclude value added tax. Amounts payable to and receivable from the same operators are shown net in the balance sheet where a legal right of offset exists.



Employee benefits

The Company makes certain payments to employees on retirement, or when they otherwise leave the employment of the Company. These obligations, which are unfunded, represent obligations under a defined benefit pension scheme. For such plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of operations so as to spread the regular cost over the average service lives of employees. Actuarial gains and losses are recognized in the statement of operations immediately.

Where such post-employment employee benefits fall due more than 12 months after the balance sheet date, they are discounted using a discount rate determined by reference to market yields on Government bonds at the balance sheet date.

The Company also participates in a defined contribution plan under which the Company has committed to contribute up to a maximum of 2% of salary for each employee choosing to participate in the plan.

Contributions made by the Company on defined contribution plans are charged to expense when incurred.

The Group contributed 85 to these plans during the year ended December 31, 2002 (2001: 167, 2000: 182).

The Group does not accrue for the employees' compensated absences (vacations) since the information on the accrued unused vacations cannot be reasonably estimated due to unavailability of detailed records. Costs related to the compensated absences of employees are expensed as incurred.

Advertising costs

Advertising costs are charged to the statement of operations as incurred.

Borrowing costs

Borrowing costs are expensed except for those that would have been avoided if the expenditure to acquire the qualifying asset had not been made. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Qualifying borrowing costs are capitalized with the relevant qualifying asset from the date the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred until the related asset is substantially ready for its intended use. Capitalized borrowing costs are subsequently charged to the statement of operations in the period over which the asset is depreciated.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into Rubles at the exchange rate as of the transaction date. Foreign currency monetary assets and liabilities are translated into Rubles at the exchange rate as of the balance sheet date.

Exchange differences arising on the settlement of monetary items, or on reporting the Group's monetary items at rates different from those at which they were initially recorded in the period, or reported in previous financial statements, are recorded as foreign currency translation gains or losses in the period in which they arise.

As at December 31, 2002 and 2001 the rates of exchange used for translating foreign currency balances were (in Russian Rubles for one unit of foreign currency):

	2002	2001
US Dollars	31.78	30.14
German Marks	-	13.54
Japanese Yen	0.2663	0.2287
Special Drawing Rights (SDR)	42.95	37.86
EURO	33.11	26.49

Source: the Central Bank of Russia

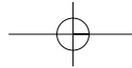
Reclassifications

Certain amounts reported in the prior period consolidated financial statements have been reclassified to conform with the current year presentation.

Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, available-for-sale investments, receivables, accounts payable and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The Company and the Group do not enter into hedging transactions.



Dividends

Dividends are recognized when the shareholder's right to receive payment is established. Dividends stated to be in respect of the period covered by the financial statements and that are proposed or declared after the balance sheet date but before approval of the financial statements are not recognized as a liability at the balance sheet date in accordance with IFRS 10, "Events After the Balance Sheet Date". The amount of dividends proposed or declared after the balance sheet date but before the financial statements were authorized for issue is disclosed in Note 15.

Minority interest

Minority interest includes that part of the net results of operations and of net assets of subsidiaries attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Company. Minority interest is carried at the minority's proportion of the pre-acquisition carrying amounts of the net identifiable assets and liabilities of the subsidiaries. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered. If a subsidiary or an associate has outstanding cumulative preferred shares which are held outside the Group, the Company computes its share of profit or losses after adjusting for the preferred dividends, whether or not the dividends have been declared.

Segment information

Operating segments are the primary segments of the Group. The Group identifies the following operating segments:

- Telecommunications services
- Lease services
- Banking and investing activities

Operating segments were identified based on the organizational structure of the Group and types of activities the Company and its subsidiaries are engaged in.

The accounting principles used to reflect transactions between reportable segments are the same as those used for transactions with external parties.

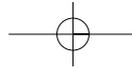
Stock-based compensations

The Group accounts for stock-based compensations using the fair value method. Except for the issue of preferred shares by RTC-Leasing in 2001, as more fully described in Note 7 below, the Group did not develop any stock-based compensation plans.

6. PROPERTY, PLANT AND EQUIPMENT, NET

The net book value of property, plant and equipment as of December 31, 2002 and 2001 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
COST OR VALUATION					
At January 1, 2002	24,299	127,849	22,266	3,851	178,265
Additions	–	7	–	2,689	2,696
Property, plant and equipment of acquired subsidiaries	10	1,022	206	114	1,352
Disposals	(441)	(2,120)	(379)	(43)	(2,983)
Transfers	144	1,053	1,542	(2,739)	–
At December 31, 2002	24,012	127,811	23,635	3,872	179,330
ACCUMULATED DEPRECIATION					
At January 1, 2002	15,588	87,330	12,671	–	115,589
Depreciation expense	584	6,132	2,390	–	9,106
Relative share in accumulated depreciation on property, plant and equipment of acquired subsidiaries accounted for using the equity method before acquisition	1	270	108	–	379
Disposals	(350)	(1,363)	(309)	–	(2,022)
At December 31, 2002	15,823	92,369	14,860	–	123,052
NET BOOK VALUE AT DECEMBER 31, 2002	8,189	35,442	8,775	3,872	56,278
COST OR VALUATION					
At January 1, 2001	26,589	128,396	22,678	2,023	179,686
Additions	–	336	20	3,643	3,999
Disposals	(2,326)	(2,094)	(933)	(67)	(5,420)
Transfers	36	1,211	501	(1,748)	–
At December 31, 2001	24,299	127,849	22,266	3,851	178,265
ACCUMULATED DEPRECIATION					
At January 1, 2001	17,065	84,210	11,156	–	112,431
Additions	536	5,042	2,419	–	7,997
Disposals	(2,013)	(1,922)	(905)	–	(4,840)
At December 31, 2001	15,588	87,330	12,670	–	115,588
NET BOOK VALUE AT DECEMBER 31, 2001	8,711	40,519	9,596	3,851	62,677



ОАО Rostelecom
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002
(In millions of Russian Rubles in terms of purchasing power of the Ruble at December 31, 2002)

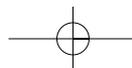
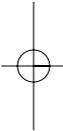
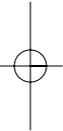
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Payments for rent of satellite channels in the amount of 1,757 were included in the carrying value of cable and transmission devices as of December 31, 2001. The Company uses composite depreciation method to amortize the prepaid satellite channels.

During 2002 the Company formalized a plan to discontinue using these satellite channels beginning from February 2003. The Company has accordingly revised its estimate of the remaining period of use of the satellite channels. Additional depreciation expense of 897 was recognized in the accompanying consolidated financial statements. The carrying amount of prepaid rent as of December 31, 2002 was 210. Amounts receivable from the lessor for partial return of prepayments of 545 are included in other non-current assets (356) and other accounts receivable (189) (refer to Note 12). Non-current portion of amounts receivable was discounted using discount rates of 18% for Ruble denominated amounts and 3% for US Dollar denominated amounts.

Capitalized interest amounting to 57, 92 and 315 for the years ended December 31, 2002, 2001 and 2000, respectively, is included in property, plant and equipment additions.

Property, plant and equipment with a carrying value of 9,117 (2001: 15,097) has been pledged in relation to loan agreements entered into by the Group (refer to Note 18).



7. SUBSIDIARIES

The accompanying consolidated financial statements include the assets, liabilities and results of operations of Rostelecom and the following of its subsidiaries:

Subsidiary	Country of registration	Effective share of the Group as of December 31, 2002
OAO RTC-Leasing ("RTC-Leasing")	Russia	32.27%
RosTelecomLeasing S.A. ("RTCL S.A.")	Switzerland	32.27%
RosTelecomLeasing Cyprus ("RTCL Cyprus")	Cyprus	32.27%
RTDC Holdings, Inc. ("RTDC")	USA	32.27%
ZAO Russian Industrial Bank ("RIB")	Russia	32.27%
ZAO Westelcom ("Westelcom")	Russia	100%
OAO RTComm.RU ("RTComm.RU")	Russia	37.91%
ZAO AKOS ("AKOS")	Russia	29.68%

As of December 31, 2001 and 2002 the Company owned 27% of the voting shares of RTC-Leasing. The principal activity of RTC-Leasing is the leasing of equipment to telecommunications companies in Russia. The principal counterparty as lessee to finance leases entered into by RTC-Leasing is Rostelecom. In the accompanying consolidated financial statements finance lease transactions between RTC-Leasing and Rostelecom and other companies of the Group have been eliminated.

During 2001, RTC-Leasing purchased for a cash payment of 201 10% of its ordinary shares from shareholders other than Rostelecom and held them in treasury as of 31 December 2001. As a result of this transaction the Group's effective share in RTC-Leasing increased to 30%.

In 2001 RTC-Leasing issued 10,000 preferred shares with a par value of 10 Rubles each and sold them at par to individuals, which were related parties to RTC-Leasing. No future service was required from the holders of the preferred shares. Preferred shares issued carried dividends amounting to the higher of 10% of the net income after taxation as disclosed in the Russian statutory accounts of RTC-Leasing and the dividends payable on ordinary shares. In connection with the issuance, in 2001 the Group recognized 279 as compensation expense and recorded it in wages, salaries, other benefits and payroll taxes in the consolidated statement of operations. In 2002, RTC-Leasing declared and paid preferred dividends in the amount of 109.

In December 2002 the Board of Directors of RTC-Leasing approved a purchase of preferred shares. The purchase price of 191 was paid to the holders of preferred shares in December 2002. As of June 6, 2003 preferred shares are not cancelled. As a result of dividend payment and redemption of the preferred shares the holders of the preferred shares received additional compensation of 21, the share of the Group in which amounting to 6 was included in wages, salaries, other benefits and payroll taxes in 2002.

In February 2002 RTC-Leasing issued and sold additional 3,964,714 ordinary shares at par value of 10 Rubles per share. The Company retained its interest in voting stock of RTC-Leasing of 27% by purchasing the respective part of issued shares.

The additional issuance was made in accordance with trilateral agreement ("Agreement") between Rostelecom and non-state pension fund "Rostelecom-Garantiya" ("Initial shareholders"), from one side, RTC-Leasing from the other side, and a consortium of the shareholders ("Consortium"), from the third side. The Agreement called for certain actions aimed to increase capitalization of RTC-Leasing.

Immediately after the issuance the following companies were owners of ordinary shares of RTC-Leasing:

	% of ordinary shares
Rostelecom	27.13
Non-state pension fund "Rostelecom-Garantiya"	3.03
CB "Severo-Zapadny Telecombank"	18.91
Non-commercial partnership "The Telecommunications Development Research Center"	2.82
Treasury shares on the balance sheet of RTC-Leasing	0.48
ZAO "Gamma-Invest"	15.93
ZAO "KFP-Finance"	15.77
RIB	15.93
Total ordinary shares	100

Shares owned by RIB are treated as treasury shares (see below details of RIB acquisition). Accordingly, the Group's effective share in RTC-Leasing increased to 32.27%. The purchase of minority interest was accounted for using the purchase method. Negative goodwill of 74 was recognized in relation to this transaction and included in negative goodwill, net of current portion, in the accompanying consolidated balance sheet as of December 31, 2002.

The management of the Company believes that it continues to exercise control over the management, policies and day-to-day operations of RTC-Leasing. Finance income from leases generated by the Company forms the major part of overall revenues of RTC-Leasing. The Company guarantees significant amounts of debt of RTC-Leasing and has a right to appoint the majority of the Board of directors of RTC-Leasing. Therefore the Company continues to consolidate the results of operations and financial position of RTC-Leasing.

Under the Agreement the control over RTC-Leasing was planned to pass to the Consortium after of the latter performs certain actions intended to increase capitalization and investing attractiveness of RTC-Leasing. The Agreement defined in general the obligations of the Consortium. The Consortium was to expand customer base of RTC-Leasing, to develop new lease contracts for the amount of US\$ 330 million, to facilitate financing and increase effectiveness of the business of RTC-Leasing.

To define specific obligations of the Consortium the parties re-negotiated the terms of the original Agreement and signed in May 2003 an additional agreement which stipulated that the Consortium is obliged to perform certain actions which should result in:

- Decreasing the Company's liabilities to RTC-Leasing in the amount not less than 1,800 within 6 months period;
- Selling shares of RTC-Leasing owned by Rostelecom and non-state pension fund "Rostelecom-Garantiya" for total amount of proceeds not to be less than 750 within 6 months period;
- Cancellation of all guarantees and pledges provided by Rostelecom in respect of loans payable by RTC-Leasing within 12 months period.

As of December 31, 2002, the Consortium had not provided any of the services under the Agreement. As of December 31, 2002 none of the shares issued to the Consortium were vested. The Group plans to recognize stock-based expense in connection with the Agreement as services are provided. As of December 31, 2002, the Group has not recognized stock-based compensation expense in connection with the Agreement.

RTCL S.A. is a 100% subsidiary of RTC-Leasing established in 2000 under legislation of Switzerland. The company was established with the purpose to develop leasing activities of RTC-Leasing, maintain relationships with foreign vendors and fundraising activities. The results of operations and net assets of RTCL S.A. are consolidated by the Group from January 1, 2002, since in prior years the results of operations and net assets of RTCL S.A. were not material.

In April 2002 RTCL S.A. acquired from AT&T for a cash payment of USD 33 million (1,117 at the exchange rate at date of transaction) 94.9% of ordinary shares in telecommunications holding company RTDC and all rights under the loan receivable from RTDC of USD 48 million (1,615 at the exchange rate at date of transaction). RTDC has significant investments in a number of Russian cellular telecommunications companies which depending on the intentions of management were accounted for as investments in associates (refer to Note 8) or investments available-for-sale (refer to Note 13). The acquisition was accounted for as business combination using the purchase method.

In October 2002 RTCL S.A. purchased the remaining 5.1% shares of RTDC for a cash payment of USD 1.3 million (43 at the exchange rate at date of transaction) from International Finance Corporation. After this purchase the Group owned 100% of voting shares of RTDC. This transaction was accounted for as purchase of minority interest using the purchase method. The results of operations and financial position of RTDC were consolidated by the Group in the accompanying financial statements beginning from April 2002.

At the date of acquisition in April 2002, RTDC owned 50% of ordinary shares of Westelcom, which main activity is provision of international traffic transition services. Rostelecom owned remaining 50% of ordinary shares, which was treated as an investment in associate using the equity method of accounting. Therefore, in April 2002 the Group obtained control over financial and operating policies of Westelcom. Accordingly, the results of operations and financial position of Westelcom were consolidated by the Group beginning from April 2002.

For the purpose of accounting for acquisition the purchase price was split as follows

Amount attributable to acquisition of RTDC	839
Amount attributable to acquisition of Westelcom	278
Total purchase price	1,117

At the date of acquisition RTDC owned 92% of ordinary shares of AKOS, whose main activity constitutes provision of cellular services in Primorskiy region of Russia. The acquisition was accounted for using the purchase method. Accordingly, the results of operations and financial position of AKOS were consolidated by the Group beginning from April 2002.

OAO Rostelecom

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

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

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The excess of fair value of the acquired identifiable net assets of RTDC and AKOS over contribution paid (negative goodwill) was identified as follows:

	Acquisition of 94.9% of shares of RTDC	Purchase of minority interest in RTDC	Total
Purchase price	839	43	882
Transaction cost	1	–	1
Total consideration	840	43	883
Fair value of identifiable assets and liabilities:			
■ Property, plant and equipment	43	37	
■ Long-term investments	2,063	1,163	
■ Other non-current assets	1	13	
■ Accounts receivable	117	108	
■ Cash	9	34	
■ Other current assets	33	98	
■ Short-term liabilities	(436)	(197)	
■ Long-term liabilities	(1,899)	(101)	
Total net assets (liabilities)	(69)	1,155	
Share of the Group in net assets (liabilities) acquired	94.9%	5.1%	
Fair value of acquired share of identifiable net assets (liabilities)	(69)	59	(10)
Indebtedness of RTDC acquired	1,615	–	1,615
Negative goodwill	(706)	(16)	(722)
Amortization of negative goodwill from the date of acquisition to December 31, 2002	85	–	85
Net book value of negative goodwill at December 31, 2002	(621)	(16)	(637)

RTComm.RU was established in 2000. Initially, RTC-Leasing owned 100% of ordinary shares of RTComm.RU. As of December 31, 2002 RTC-Leasing and Rostelecom owned 40% and 25% of voting shares of RTComm.RU, respectively. The main activity of RTComm.RU is provision of Internet access services to enterprises and people. The accompanying consolidated financial statements include assets and liabilities of RTComm.RU as of December 31, 2002 and results of its operations beginning from January 1, 2002. Net assets and results of operations of RTComm.RU in earlier periods were not significant.

In October 2002, Rostelecom purchased 50% of ordinary shares of Westelcom from RTDC for a cash payment of USD 15 million (489 at the exchange rate at date of transaction). Management expects significant synergies from obtaining control over the core assets of Westelcom. This transaction was accounted for as purchase of minority interest using the purchase method. The share of the Company in net assets of Westelcom became equal to 100% after completion of this purchase.

In March 2002 RTC-Leasing acquired 80% of ordinary shares of ZAO Russian Industrial Bank ("RIB") for a cash payment of 93. Acquisition was accounted for using the purchase method. Accordingly, the results of operations and financial position of RIB were consolidated by the Group beginning from March 2002. In July 2002 RTC-Leasing acquired remaining 20% for 11. This transaction was accounted for as purchase of minority interest using the purchase method. The purpose of the acquisition was diversification of activities and expanding the range of services provided by RTC-Leasing to its customers.

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

The purchase price allocation to acquired identifiable net assets of Westelcom and RIB was calculated as follows:

	Acquisition of 50% of Westelcom	Acquisition of minority interest in Westelcom from minority shareholders of RTC-Leasing	Acquisition of 80% of RIB	Acquisition of minority interest in RIB	Total
Purchase price	278	330	93	11	712
Pre-acquisition share in Westelcom	553	–	–	–	553
Total consideration	831	330	93	11	1,265
Fair value of identifiable assets and liabilities (*):					
■ Property, plant and equipment	852	587	4	4	
■ Long-term investments	131	178	–	–	
■ Other non-current assets	–	–	10	11	
■ Accounts receivable	139	124	–	–	
■ Cash	28	8	1,047	749	
■ Other current assets	35	21	958	1,006	
■ Short-term liabilities	(171)	(73)	(1,943)	(1,698)	
■ Long-term liabilities	(60)	(20)	–	–	
Total net assets	954	825	76	72	
Share of the Group in net assets acquired	100%	23%	80%	20%	
Fair value of acquired share of identifiable net assets	954	194	61	14	1,223
Goodwill	(123)	136	32	(3)	42
Amortization of goodwill from the date					
of acquisition to December 31, 2002	8	(4)	(8)	1	(3)
Net book value of goodwill at December 31, 2002	(115)	132	24	(2)	39

(*) – Except for a case of acquisition of 50% of Westelcom, in which identifiable assets and liabilities were measured at the aggregate of fair values to the extent of the Group's interest acquired in a business combination (50%), and the Company's share in the pre-acquisition carrying amounts (50%).

The share of minority in the amount of cash paid by Rostelecom to RTDC for shares of Westelcom was used as purchase price for the purposes of accounting for goodwill in acquisition of minority interest in Westelcom.

Below is the unaudited pro forma information, which has been prepared as if all 2002 business combinations had occurred on January 1, 2001:

	2002 (Unaudited)	2001 (Unaudited)
Total assets	79,167	83,472
Total revenue	28,169	30,387
Net income	657	4,357
Earnings per share (Rubles)	0.58	5.81

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

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

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8. INVESTMENTS IN ASSOCIATES

Movements in investments in associates during the years ended December 31, 2002 and 2001 were as follows:

	2002	2001
Beginning of year	1,239	3,029
Additions, net of dividends received	2,026	4
Share in results before income taxes	11	(35)
Share of income taxes (Note 24)	(23)	(161)
Decrease due to consolidation of Westelcom	(618)	-
Reclassification of investments in EDN Sovintel and OAO Giprosvyaz (Note 13)	-	(1,598)
End of year	2,635	1,239

Total income /(loss) from associates in the consolidated statements of operations is composed as follows:

	2002	2001
Share in income (loss) of associates included in movements in investments in associates	11	(35)
Share in income of EDN Sovintel from 1 January 2002 through the date of disposal (Note 13)	382	-
Total income /(loss) from associates	393	(35)

Total share in income taxes of associates in the consolidated statements of operations is composed as follows:

	2002	2001
Share in income taxes of associates included in movements in investments in associates	23	161
Share in income taxes of EDN Sovintel from 1 January 2002 through the date of disposal (Note 13)	110	-
Total share in income taxes of associates	133	161

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

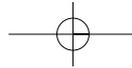
Investments in associates as of December 31, 2002 and 2001 were as follows:

		Voting share capital, %	2002 Carrying amount	2001 Carrying amount
Westelcom	Telecommunication services	100 (2001: 50)	–	618
Telmos	Telecommunication services	20	226	199
Moscow cellular Communications (“MCC”)	Mobile telecommunications	45.5 (2001: 23.5)	145	107
Delta Telecom	Mobile telecommunications	42.5	161	–
Uralwestcom	Mobile telecommunications	49	67	–
Golden Telecom, Inc., USA (refer to Note 13)	Telecommunication services	15	1,874	–
GlobalTel	Satellite telecommunications	51	–	–
Other	Various		162	315
Total investment in associates			2,635	1,239

All associates except for specially mentioned otherwise are registered in the Russian Federation.

In April 2002 the Group obtained control over Westelcom (Note 7), therefore the Group ceased to account for Westelcom using the equity method.

The Group owns 45.5% of shares of MCC, of which Rostelecom owns 23.5% and RTDC owns 22%. In 2001 the Group assessed the recoverable amount of its investment in MCC and determined that it was below its carrying amount. Impairment loss of 334 was recognized in 2001 and included in gain/(loss) from associates in the accompanying consolidated statement of operations. As of December 31, 2002 the Group determined that recoverable amount of investment in MCC increased due to beginning of CDMA network development. As of December 31, 2002 the Group reversed impairment loss of 55 recognized in prior period and included this amount in gain/(loss) from associates.



The Group owns 51 per cent of the ordinary shares of GlobalTel, a Russian closed joint stock company. GlobalTel was created in 1996 to provide access to a US-based global mobile satellite telephone network. Since the time of its launch, the global satellite network has experienced technical problems and low subscriber interest, as the result of which GlobalTel has only recently developed its operations beyond the development stage. The US owner of the satellite network also owns the remaining 49 per cent of GlobalTel. The charter of GlobalTel, its by-laws and the way GlobalTel historically conducted its operations provide for substantive participation of both shareholders in the economic activities of GlobalTel. The minority shareholder has effective veto rights that would prevent the Group from causing GlobalTel to take an action that is significant in the ordinary course of its business. Because effective control of GlobalTel does not rest with the Group, management accounts for the investment in GlobalTel under the equity method. The Group recognized equity in net losses of GlobalTel of 467 and 302 in 2001 and 2000, respectively. The Group did not recognize its share in losses of GlobalTel in 2002 as the accumulated share in losses of GlobalTel exceeded the investment of the Group in GlobalTel. Loans and other accounts receivable from GlobalTel are written off. Any receipts from GlobalTel are recognized as income in the period they are received.

Investments in Delta Telecom and Uralwestcom were acquired as a result of the acquisition of RTDC by RTC-Leasing in 2002 (refer to Note 7).

The carrying amount of investments in associates in the accompanying consolidated financial statements is equal to the Group's share of underlying equity in the net assets of investee companies, except for investments in Golden Telecom, Inc. ("Golden Telecom"). The initial investment in Golden Telecom was valued at its market value (refer to Note 13). All associates have a December 31 balance sheet date.

Accounting policies of associates may not comply with accounting policies used by the Group in preparation of the accompanying consolidated financial statements. In the opinion of management, differences in accounting policies of associates do not materially affect the identification of the Group's share in income of associates.

9. LONG-TERM FINANCIAL INVESTMENTS

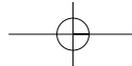
Long-term financial investments as of December 31, 2002 comprised the following:

	2002
Loans provided to associates and other companies	204
Loans provided to customers	69
Notes receivable	165
Other long-term financial investments	140
Total long-term financial investments	578

Loans provided to associates and other companies include loans provided by the Group to Uralwestcom (refer to Note 8) of 31.

Loans provided to customers represent loans provided by RIB to Russian companies, mainly telecommunication and industrial, and to individuals.

Other long-term financial investments include investment in Volga Telecom. As of December 31, 2002 these investments are stated at fair value.



10. GOODWILL AND NEGATIVE GOODWILL

Goodwill was recognized in connection with acquisition of Westelcom and RIB and represents the excess of the purchase price paid over the fair value of identifiable net assets acquired.

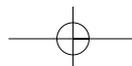
Negative goodwill resulted from acquisition of the interest in RTDC and changes in ownership interest in RTC-Leasing and represents the excess of the fair value of the net identifiable assets acquired over the purchase consideration paid.

Goodwill and negative goodwill are amortized using straight-line method over periods ranging from 3 to 10 years.

Portion of negative goodwill related to investments in associates classified as available-for-sale shall be amortized to income when the underlying investments are sold. In the opinion of the Group's management this method better reflects the economic nature of the respective negative goodwill (refer to Note 13). This respective portion was determined pro-rata to relative fair values of such investments in the fair value of acquired identifiable net assets of RTDC and is included as of December 31, 2002 in the current portion of negative goodwill in the following amounts:

	2002
NCC	(228)
Eniseytelecom	(117)
Baykalwestcom	(110)
Other assets	(16)
Total	(471)

Amortization of goodwill and negative goodwill is included in administration and other cost, except for amortization of negative goodwill related to available-for-sale investments, which is included in income from sale of investments in the consolidated statements of operations.



11. LEASE RECEIVABLES

As discussed in Note 7, the principal activity of RTC-Leasing is the leasing of equipment to telecommunication companies. In prior years, the Company was a principal lessee of such equipment. During 2002 RTC-Leasing concluded significant number of new agreements with companies, other than Rostelecom, including Russian regional telecommunication companies of Svyazinvest Group (see also Note 28) as well as non-related entities.

As of December 31, 2002 and 2001 lease receivables comprised of the following:

	2002	2001
Gross investment in leases	4,200	638
Less: unearned finance lease income	(1,508)	(220)
Net investment in leases	2,692	418
Equipment purchased for leasing purposes	1,303	258
Total lease receivables	3,995	676
Including:		
Non-current portion of lease receivables	2,713	676
Current portion of lease receivables	1,282	-

Current portion of lease receivables is included in Accounts receivable in the accompanying balance sheet (see also Note 12).

The table below provides the maturity profile of the future minimum lease payments as of December 31, 2002:

	Less than 1 year	1-5 years	Total
Gross investment in leases	1,515	2,685	4,200

12. ACCOUNTS RECEIVABLE, NET

Accounts receivable as of December 31, 2002 and 2001 comprised the following:

	2002	2001
Trade accounts receivable	7,192	8,336
Less: allowance for doubtful accounts	(2,214)	(1,825)
Trade accounts receivable, net	4,978	6,511
Prepayments	218	563
Prepaid taxes	1,447	505
Current portion of lease receivables	1,282	-
Other accounts receivable	921	954
Less: allowance for doubtful accounts	(229)	-
Other accounts receivable, net	3,639	2,022
	8,617	8,533

Trade accounts receivable, net of allowances for doubtful accounts, include amounts totaling 1,027 (2001: 1,586) due from foreign telecommunications operators which are denominated in foreign currencies, principally represented by Special Drawing Rights ("SDR") and US dollars, and amounts totaling 2,685 (2001: 3,086) due from local telephone operators. As of December 31, 2002 and 2001 the carrying value of trade accounts receivable was equal to their fair value.

The following table summarizes the changes in the allowance for doubtful accounts for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Balance, beginning of year	1,825	2,201	2,781
Impact of inflation on opening balance	(240)	(348)	(466)
Provision for / (recovery of) doubtful accounts	863	(28)	361
Accounts receivable written-off	(5)	-	(475)
Balance, end of year	2,443	1,825	2,201

13. SHORT-TERM INVESTMENTS

Short-term investments include investments available-for-sale, which are stated at fair value (except for investment in EDN Sovintel, which was accounted for using the equity method). Short-term investments comprised the following as of December 31, 2002 and 2001:

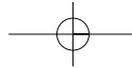
	2002	2001
EDN Sovintel (Note 8)	–	1,493
OAO Giprosvyaz (Note 8)	–	105
Baykalwestcom	410	–
Eniseytelecom	420	–
NCC	802	–
VEB bonds (USD denominated)	197	172
Eurobonds (USD denominated)	127	–
Liquid bills of exchange	2,085	1,317
Bonds of the Group of OAO “Svyazinvest” (Ruble denominated)	69	–
Other corporate securities (Ruble denominated)	51	–
Other	414	151
Total short-term investments	4,575	3,238

Fair value of investments, which are traded on active markets, is based on the market quotes for such investments. Fair value of investments, which are not traded on active market, is based on estimated discounted future cash flows. The discount rate is identified individually for each company and is based on the weighted average cost of capital.

Transactions with financial instruments are recognized using settlement date accounting. Assets are recognized on the day they are transferred to the Group and derecognized on the day that they are transferred by the Group.

Income from sale of investments during the year ended December 31, 2002 was as follows:

Income from sale of investment in Sovintel	1,733
Income from sale of investment in Dontelecom	116
Loss from sale of other investments	(9)
Total income from sale of investments	1,840



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In September 2002 the Company completed a sale of its 50% interest in Sovintel to Golden Telecom Inc. Purchase consideration paid by Golden Telecom comprised of cash of US\$ 10 million (335 at the exchange rate as of the date of transaction), no-interest bearing US\$ 46 million promissory note (1,527 at the exchange rate as of the date of transaction) settled in full amount in December 2002 and 4,024,067 ordinary shares of Golden Telecom (1,786 at average market quotes at the transaction date). Ordinary shares of Golden Telecom were valued at the average of NASDAQ closing quotes two days before and after the measurement date, which was determined to be September 5, 2002. Transaction costs amounted to 172. In connection with this sale the Company recognized a gain of 1,733, which was included in income from sale of investments in the consolidated statement of operations. In November 2002 two representatives of Rostelecom have been elected to the Board of Directors of Golden Telecom.

Management believes that the Group has the ability to exercise significant influence on the financial and operating activities of Golden Telecom, through representation on its Board of Directors. Therefore, investments into Golden Telecom are accounted for using the equity method.

The excess of purchase price paid for shares of Golden Telecom over the fair value of identifiable net assets acquired in amount of 762 was identified and shall be amortized over the period of 8 years. Amortisation charge of 32 is included in gain/(loss) from associates (excluding income tax) in the year ended December 31, 2002. The remaining part of 730 is included in carrying amount of investment in Golden Telecom as of December 31, 2002.

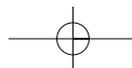
In May 2002 the Company sold for 105 its 22% interest in the voting capital of OAO Giprosvyaz to one of the companies of the Group of OAO "Svyazinvest".

In September 2002 the Group sold for 246 its 33.3% interest in ordinary shares of Donteicom, an entity acquired owned by RTDC, to unrelated party. Income from the transaction amounted to 116 and was included in income from sale of long-term investments in the consolidated statement of operations.

Investments in Baykalwestcom (49% of voting shares), Eniseytelecom (49% of voting shares) and NCC (50% of voting shares) were acquired by the Group as part of the acquisition of RTDC (Note 7) and were targeted to be sold in the near future to the companies within the Group of OAO "Svyazinvest" (refer to Note 33).

Vnesheconombank (VEB) bonds are bearer securities guaranteed by the Ministry of Finance of Russia, and are commonly referred to as "MinFin Bond". The bonds carry an annual coupon interest rate of 3%. Vnesheconombank bonds are stated at market value based on quotations obtained from the over the counter market.

The Group invests temporarily available funds in bills of exchange issued by various Russian companies maturing within 12 months after the balance sheet date or with no fixed maturity, which the Group plans to sell during one year. The bills of exchange bear interest in the range from 5.5% to 17.5% and are denominated in Rubles, as well as in foreign currencies. The Group uses bills of exchange as a financial instrument primarily for the purpose of receiving financial income.

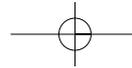


14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2002 and 2001 included cash on hand and in bank accounts as follows:

	2002	2001
Cash on hand	19	2
Cash at bank – Rubles	227	899
Cash at bank – Foreign currencies	572	413
Short term deposits – Rubles	1,447	617
– Foreign currencies	96	277
Current account with the Central Bank of Russia	433	–
Obligatory reserves with the Central Bank of Russia	171	–
Time deposit with the Central Bank of Russia	355	–
Letters of credit	322	14
	3,642	2,222

Cash at bank in foreign currencies includes amounts of 120 (2001: 261) held in escrow accounts on behalf of providers of loans to the Company.



15. SHAREHOLDERS' EQUITY

Share capital

The authorized share capital of the Company as of December 31, 2002 and 2001 comprised 1,634,026,541 ordinary and 242,832,000 non-redeemable preferred shares. The par value of both ordinary and preferred shares amounted to Rbl 0.0025.

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

	Number of Shares	Nominal Value	Indexed Value
Ordinary Shares, Rbl 0.0025 par value	728,696,320	1.822	75
Preferred Shares, Rbl 0.0025 par value	242,831,469	0.607	25
Total	971,527,789	2.429	100

There were no share transactions during 2002 and 2001.

The Board of Directors of Rostelecom is authorized under its Charter to issue additional ordinary shares up to the total of the authorized share capital without further shareholder approval.

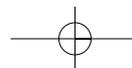
The share capital of the Company on its incorporation has been indexed, to account for the effects of inflation from that date. The share capital in the Russian statutory accounts at December 31, 2002 and 2001 amounted to 2,428,819 nominal Rubles.

Ordinary shares carry voting rights with no guarantee of dividends.

Distributions

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

Preferred shares carry dividends amounting to the higher of 10% of the net income after taxation of the Company as disclosed in the Russian statutory accounts divided by the number of preferred shares and the dividends paid on one ordinary share. Owners of preferred shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision not to pay (or to pay part only) dividends on preferred shares has been taken.



In a case of liquidation, the property remaining after settlement with creditors, payment of preferred dividends and redemption of the par value of preferred shares is distributed among preferred and ordinary shareholders proportionately to number of owned shares.

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by statutory accounting rules. Statutory retained earnings of the Company as of December 31, 2002 and 2001 amounted to 6,797 and 4,376, respectively.

Treasury Shares

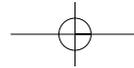
In accordance with the Company's Charter, Rostelecom is permitted to repurchase, on the open market, ordinary and preferred shares as long as 90% of the nominal value of its issued Charter Capital remains in circulation. Repurchased shares must either be sold or cancelled within one year of being purchased.

Dividends

Dividends payable to holders of preferred and ordinary shares in respect of the years ending December 31, 2001 and 2000 were as follows:

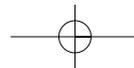
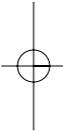
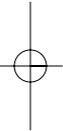
	2001	2000
Proposed dividend – preferred shares	235	124
Proposed dividend – ordinary shares	164	145
	399	269
	Rbl	Rbl
Proposed dividend per preferred share	0.96	0.52
Proposed dividend per ordinary share	0.22	0.20

In April 2003, the Board of directors of the Company proposed the dividends in respect of 2002. Ordinary shares dividends amounted to 0.54 Ruble per share (396) and dividends on the preferred shares amounted to 1.27 Ruble per share (310). The accompanying consolidated financial statements do not reflect the dividend payable in respect of 2002, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending December 31, 2003.



16. MINORITY INTEREST

	2002	2001
At beginning of year	1,929	1,530
Minority interest in net assets of acquired subsidiaries	224	–
Minority interest in net income of subsidiaries	1,071	322
Dividends paid to minority shareholders of subsidiaries	(129)	279
Purchase of minority interest	(79)	(202)
Re-purchase of own preferred shares by subsidiary	(191)	–
At the end of year	2,825	1,929



17. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of December 31, 2002 and 2001:

	2002	2001
Trade accounts payable	3,114	3,364
Accrued expenses	1,865	2,179
Compensation related accruals	135	238
Notes payable	–	58
Dividends payable	48	23
	5,162	5,862

Trade accounts payable include amounts totaling 1,832, which are denominated in foreign currencies, principally represented by Special Drawing Rights and United States dollars (2001: 2,197).

18. INTEREST BEARING LOANS

The interest bearing loans as of December 31, 2002 and 2001 were as follows:

	2002	2001
Maturity		
Current portion of interest bearing loans	4,529	6,709
Between one to two years	919	797
Between two to three years	641	294
Between three to four years	479	–
Between four to five years	278	–
Greater than five years	–	–
Non-current portion of interest bearing loans	2,317	1,091
Total interest bearing loans	6,846	7,800

As of December 31, 2002 and 2001 interest bearing loans, which are mostly denominated in foreign currencies are summarized as follows:

	Note	2002	2001
US Dollars (US\$)	(a)	826	2,183
German Marks (DM)		–	114
Japanese Yen (JPY)	(b)	3,089	3,163
EURO	(c)	150	1,014
Foreign currency denominated loans		4,065	6,474
Russian Ruble denominated loans	(d)	2,781	1,326
Total interest bearing loans		6,846	7,800

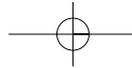
a) This includes the following amounts:

Rostelecom:

- US\$ 15.95 million, (507), on a credit agreement between Rostelecom and Sumitomo Corporation entered into in March 1997. The loan is secured by the related equipment and by cash balances deposited in designated escrow accounts, and is repayable in quarterly installments with the final payment due not later than July 2005. Interest is payable at LIBOR plus 3.2%. The purpose of the loan is financing of construction of fiber optic cable line Novosibirsk – Khabarovsk. Current portion is 263.

RTC-Leasing:

- US\$ 1.4 million (46) within a credit line provided by ING Bank (Eurasia) with maximum amount of USD 4.3 million. Maturity date is October 12, 2003. Interest rate equals LIBOR multiplied by 365/360 plus 6% p.a. The loan is secured by a guarantee of Rostelecom. Also, the Group pledged its telecommunication equipment leased out to Rostelecom. The entire balance relates to current portion.
- US\$ 2.9 million (93) within a credit line provided by ING Bank (Eurasia) with maximum amount of USD 10 million. Maturity date is March 31, 2004. Interest rate equals 15% p.a. The loan is secured by a guarantee of Rostelecom. 81 relates to current portion.
- US\$ 1.6 million (52) within a credit line provided by Russian Commercial Bank, Zurich, Switzerland, with maximum amount of USD 1.9 million. Maturity date is March 21, 2005. Interest rate equals LIBOR/0.95 plus 6.316% p.a. 21 relates to current portion.
- US\$ 3.1 million (98) within a credit line provided by Vneshtorgbank with maximum amount of USD 4.1 million. Maturity date is July 6, 2004. Interest rate equals LIBOR plus 8% p.a. The loan is secured by a guarantee of OAO MGTS. 49 relates to current portion.
- US\$ 0.9 million (29) on a credit line agreement for JPY 259 million with ING Bank Eurasia open to August 2004. Annual interest rate equals LIBOR plus 3.5%. The loan is guaranteed by Rostelecom. 17 relates to current portion.



b) This includes the following amounts:

Rostelecom:

■ JPY 11,601 million, (3,089), on a credit agreement between Rostelecom and Vnesheconombank entered into in 1994. It was repayable in equal annual installments of JPY 2,105 million, with a final payment due not later than October 2001. The Government decree provides for the possibility of a restructuring of Government's debts administered by Vnesheconombank over a 10-year period at an interest rate of 3% per annum. In accordance with the provisions of the decree, in 2001 the Group entered in negotiations with respect to restructuring this credit agreement on said terms. As of December 31, 2002 and 2001 the Group was in technical default on payments of principal and interest. In 2002 the Group repaid several other loans totaling 1,909 which contained cross default provisions and therefore were also technically defaulted. As of December 31, 2002 the Group does not have loans which contain cross default provisions. In 2003, the Ministry of Finance of the Russian Federation rejected the restructuring. As of June 6, 2003, the Group restructured this credit agreement (refer to Note 33). The entire amount of the loan was classified as current obligation.

c) This includes the following amounts:

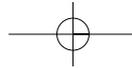
Rostelecom:

■ EURO 1.85 million, (61), on a credit agreement between Rostelecom and Vnesheconombank entered into in June 1995. It is repayable in semi-annual installments of EURO 0.46 million each with a final payment due not later than August 2004. The loan is taken for the purchase of EWSD automatic switches. The loan is secured by guarantee of Government of Russia. 33 relates to current portion.

■ EURO 0.3 million, (11), on a credit agreement between Rostelecom and Vnesheconombank entered into in March 1996. It is repayable in semi-annual installments of EURO 0.3 million each with a final payment due not later than February 2003. The loan is taken for the purchase of communication equipment. The loan is secured by the guarantee of the Government of the Russian Federation. In February 2003 the Company repaid the loan. 11 relates to current portion.

RTC-Leasing:

■ A loan of EURO 2.9 million (96) provided by ING Bank (Eurasia) under financing agreement secured by assignment of monetary claim. Maturity date is April 30, 2003. Interest rate equals EURIBOR plus 5% p.a. 96 represents current portion. In April 2003 the loan was repaid.



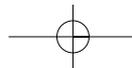
d) This includes the following amounts:

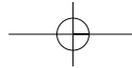
Rostelecom:

- 50 on a credit agreement between Rostelecom and Sberbank entered into in April 1999. It is secured by the equipment and repayable in quarterly installments on principal and monthly installments on interest with the final payment on April 2002. Interest is payable at 20%. The loan was taken for the purchase of telecommunication equipment. In March 2002, the loan was restructured to allow equal principal repayments through December 2003, beginning July 2002. In March 2003 an interest rate was reduced to 16%.

RTC-Leasing:

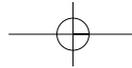
- 70 on a credit line provided by Sberbank with maximum amount of USD 30 million (953) maturing on January 20, 2003. The interest rate equals 20% p.a. The loan is secured by a guarantee of Rostelecom. The loan is denominated in rubles at the exchange rate as of the date when corresponding portion of the loan is received. 70 relates to current portion. In January 2003, the loan was fully repaid.
- 98 on a credit line provided by Sberbank with maximum amount of USD 35 million (1,112) maturing on February 10, 2003. The interest rate equals 20% p.a. The loan is secured by a guarantee of Rostelecom. Also, the Group pledged its telecommunication equipment leased out to Rostelecom. The loan is denominated in rubles at the exchange rate as of the date when corresponding portion of the loan is received. 98 relates to current portion. In February 2003, the loan was fully repaid.
- 764 on a credit line provided by Sberbank with maximum amount of USD 30.3 million (963) maturing on August 12, 2006. The interest rate equals 20% p.a. The loan is denominated in rubles at the exchange rate as of the date when corresponding portion of the loan is received. The Group pledged its telecommunication equipment leased out to Megafon. The balance amounted 218 represents current portion.
- 152 on a credit line provided by Sberbank with maximum amount of 152 million rubles maturing on April 14, 2003. The interest rate equals 18% p.a. The Group pledged its telecommunication equipment leased out to Rostelecom. The balance amounted 152 represents current portion. In April 2003, the loan was fully repaid.





- 66 on a credit line provided by Sberbank with maximum amount of 66 million rubles maturing in October 2003. The interest rate equals 18% p.a. The Group pledged its telecommunication equipment leased out to Rostelecom. 66 relates to current portion.
- 287 on a credit line provided by Sberbank with maximum amount of 489 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to Uralsvyazinform. 34 relates to current portion.
- 226 on a credit line provided by Sberbank with maximum amount of 314 maturing on August 7, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to Southern Telecommunication Company. 27 relates to current portion.
- 307 on a credit line provided by Sberbank with maximum amount of 583 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to CenterTelecom. 36 relates to current portion.
- 56 on a credit line provided by Sberbank with maximum amount of 540 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to Severo-Zapadny Telecom. 7 relates to current portion.
- 260 on a credit line provided by Sberbank with maximum amount of 631 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to VolgaTelecom. 31 relates to current portion.
- 90 on a credit line provided by Sberbank with maximum amount of 309 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to Dalsvyaz. 11 relates to current portion.
- 347 on a credit line provided by Sberbank with maximum amount of 1,090 maturing on August 15, 2007. The interest rate equals 20% p.a. The Group pledged its telecommunication equipment leased out to Sibirtelecom. 41 relates to current portion.

Other loans of the Group, all Ruble denominated, amount to 8.

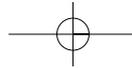


As of December 31, 2002 and 2001, the weighted average interest rates of loans were 11.7% and 9.4%, respectively. Under IFRS 39 "Financial Instruments: Recognition and Measurement", loans should be reflected in the financial statement at amortized cost, i.e. the amount at which they were measured at initial recognition less principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount. The carrying amount of debts equals their amortized cost.

The Group does not utilize financial instruments to hedge against its exposure to fluctuations in interest and foreign exchange rates.

During 2002 the Group early extinguished loans payable to Telecom Italy (337) and Merrill Lynch (612) which contained cross default provisions. There was no gain or loss on these extinguishments.

During October – November 2002 the Group early extinguished the loan payable to Siemens AG of EURO 31.6 million (986). The transaction involved RTCL Cyprus and T&B Equities (Cyprus) Limited, the subsidiary of the commercial bank Trust and Investment Bank (Russia). Gain from the transaction of 230 is included into other non-operating income, net, in the consolidated statement of operations.

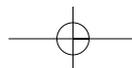
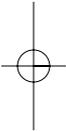
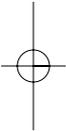


19. SHORT-TERM BORROWINGS

During 2001, RTC-Leasing placed two issues of short-term bonds payable. The first issue of 500,000 bonds with par value of 1,000 Rubles each was placed and redeemed during 2001.

The second issue of 1,000,000 bonds with par value of 1,000 Rubles each was sold at par in October 2001. Interest was fixed at 23% per annum. The bonds were redeemed in October 2002.

In November 2002 RTC-Leasing issued 1,500,000 bonds with par value of 1,000 Rubles each and sold them at par. The bonds mature in November 2004 with early redemption option exercisable in November 2003, which was approved by the Board of directors of RTC-Leasing. Annual interest on bonds is 18% and 16% for the first and second years, respectively, payable semi-annually. The principal amount of the bonds of 1,485 is included in short-term borrowings in the accompanying consolidated balance sheet as of December 31, 2002.



20. INCOME TAXES

The components of net deferred tax assets and liabilities at December 31, 2002 and 2001, and the movement during 2002, were as follows:

	December 31, 2001	Movement during the year	December 31, 2002
Tax effects of future tax deductible items (temporary differences):			
Accounts payable	892	(668)	224
GROSS DEFERRED TAX ASSET	892	(668)	224
Tax effects of future tax liability items (temporary differences):			
Property, plant and equipment, net	8,624	80	8,704
Accounts receivable	896	(704)	192
Investment valuation difference	434	15	449
Leasing arrangements	1,946	(931)	1,015
Other	241	(74)	167
GROSS DEFERRED TAX LIABILITY	12,141	(1,614)	10,527
NET DEFERRED TAX LIABILITY	11,249	(946)	10,303

Differences between IFRS and statutory taxation and reporting regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of these temporary differences is recorded at the rate of 24%, which became effective beginning January 1, 2002, 18%, 35% and 4.25% applicable to the Company and its subsidiaries incorporated in Russia, Switzerland, the United States of America and Cyprus, respectively.

The net movement of deferred tax assets and liabilities was as follows during the year ended December 31, 2002:

Deferred tax benefit (Note 24)	1,593
Deferred tax liabilities of acquired subsidiaries	(647)
Total movement during the year	946

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred income tax assets and deferred income tax liabilities relate to the income taxes levied by the same fiscal authority on the same taxable entity.

Income taxes payable and receivable as of December 31, 2002 and 2001 were as follows:

	2002	2001
Income tax payable	(184)	(374)
Income tax receivable	818	144

Income taxes payable and receivable are included in taxes payable and other accounts receivable, respectively, in the accompanying consolidated balance sheets.

OAO Rostelecom

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

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

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21. REVENUE

Revenue comprised the following for the years ending December 31, 2002, 2001 and 2000:

	2002	2001	2000
REVENUE FROM LOCAL OPERATORS			
Telephone – international	5,025	5,364	4,086
Telephone – national	5,895	5,016	4,673
Other income from local operators	3,096	2,957	3,497
	14,016	13,337	12,256
REVENUE FROM SUBSCRIBERS			
Telephone – international	3,462	4,951	6,318
Telephone – national	3,513	3,697	4,040
Internet access	849	–	–
Cellular services	89	–	–
	7,913	8,648	10,358
REVENUE FROM FOREIGN OPERATORS			
Telephone	4,250	6,018	8,128
Telex, telegraph and other	622	571	830
Leased lines	228	263	902
	5,100	6,852	9,860
OTHER REVENUE	1,112	1,432	1,611
TOTAL REVENUE	28,141	30,269	34,085

22. SEGMENT INFORMATION

In years prior to 2002 the Group operated in one industry segment, being the provision of intercity and international telecommunications services in the Russian Federation, since there were no banking and investing operations, leasing outside the Group was immaterial. Since 2002, the Group operates in several industry segments, as shown below:

	Telecommunications	Leasing	Banking and Investing	Eliminations	Consolidated
Revenue from external customers	27,821	297	23	–	28,141
Inter-segment revenue	–	2,257	–	(2,257)	–
Total revenue	27,821	2,554	23	(2,257)	28,141
Segment depreciation and amortization	(9,099)	(5)	(2)	–	(9,106)
Bad debt expense	(863)	–	–	–	(863)
Segment result	1,911	2,273	(154)	(2,275)	1,755
Profit from operations	1,911	2,273	(154)	(2,275)	1,755
Interest expense	(2,839)	(473)	(133)	2,576	(869)
Interest income	329	–	402	(301)	430
Income from associates	418	–	49	(74)	393
Foreign exchange loss, net					(983)
Monetary gain					165
Income from sale of investments					1,840
Other non-operating income, net					556
Income tax expense	(928)	(480)	(130)	–	(1,538)
Minority interest					(1,071)
Net profit for the year					678
Segment assets	69,912	10,509	3,030	(7,008)	76,443
Income tax asset (current and deferred)	818	–	–	–	818
Investment in associates	2,407	–	305	(77)	2,635
Goodwill	17	–	22	–	39
Negative goodwill	–	–	(711)	–	(711)
Total assets	73,154	10,509	2,646	(7,085)	79,224
Segment liabilities	15,821	6,486	1,580	(7,008)	16,879
Income tax liability (current and deferred)	9,560	251	676	–	10,487
Total liabilities	25,381	6,737	2,256	(7,008)	27,366
Capital expenditure	2,679	16	1	–	2,696

An analysis of revenue by service type is disclosed in Note 21. A geographical analysis of revenue by the country or region of the customer for the years ending December 31, 2002, 2001 and 2000 was:

	Russia	CIS	USA	Western Europe	Eastern Europe	Others	Total
2002	23,041	2,846	403	881	240	730	28,141
2001	23,417	3,752	375	1,448	419	858	30,269
2000	24,225	3,270	799	2,232	981	2,578	34,085

Other segments' revenue is principally earned in Russia.

The Group had no individual customers, other than the Government of the Russian Federation and its related parties (see Note 28), that accounted for greater than 10% of its revenue during the years ended December 31, 2002, 2001 and 2000.

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

23. OTHER NON-OPERATING INCOME

Other non-operating income consisted of the following for the years ending December 31, 2002, 2001 and 2000:

	2002	2001	2000
Unrealized gain on available-for-sale investments	304	48	92
Unrealized loss on available-for-sale investments	(109)	–	–
Fair value of contributions received	103	–	–
Gain on early extinguishment of loans payable	230	–	–
Other non-operating gain, net	28	36	–
	556	84	92

In October 2002 the Company received telecommunication equipment from the company, which is not a related party, free of charge. Fair value of the equipment was estimated as equal to 103. The Group recognized fair value of the contribution received in other non-operating income, since the contribution was unconditional and the equipment could be utilized to generate future revenue.

24. INCOME TAX EXPENSE

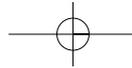
The components of income tax expense for the years ending December 31, 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Current income taxes	2,998	2,987	2,229
Deferred tax (benefit)/charge (Note 20)	(1,593)	(4,029)	2,644
Share of tax of associates (Note 8)	133	161	215
Income tax expense /(benefit)	1,538	(881)	5,088

The reconciliation of the theoretical amount that would arise using the Russian statutory rates (24% for 2002, 35% for 2001, and 30% for 2000) to the total actual income tax were as follows for the years ending December 31, 2002, 2001 and 2000:

	2002	2001	2000
Income tax expense at statutory rate	789	1,417	1,145
Non-temporary elements of monetary loss	1,537	3,320	3,030
Effect of change in tax rate on deferred tax balance	–	(5,000)	2,183
Tax losses utilized in the year not previously recognized as deferred tax assets	–	–	(203)
Other non-deductible expenses	689	1,802	1,050
Inflation effect on deferred tax balance at beginning of year	(1,477)	(2,420)	(2,117)
Income tax expense /(benefit)	1,538	(881)	5,088

Other non-deductible expenses comprise various costs that are non-deductible for Russian profits tax purposes, including certain employee costs, promotional expenditures, travel expenditures in excess of certain statutory allowances and losses on operations with certain bills of exchange.



25. EMPLOYEES

The average numbers of employees during the year was 31,729 (2001: 35,410). The Group has agreed with the Central Committee of the Telecommunications Trade Union of Russia to make payments to employees with fifteen or more years service, on retirement, amounting to no less than 2 months' salary as at the date of retirement. Further, the Company, at its discretion, makes payments to employees with less than 15 years service, on retirement, or who otherwise leave the employment of the Group. These obligations, which are unfunded, represent obligations under a defined benefit pension scheme. An accrual of 80 (2001: 149), representing the net present value of the future benefits the Group expects to pay, has been included in compensation related accruals as of December 31, 2002.

26. EARNINGS PER SHARE

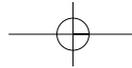
In accordance with IFRS 33 "Earnings per share" the calculation of basic and diluted earnings per ordinary share is based on net profit for the period attributable to ordinary shareholders (net profit for the period less dividends on preferred shares) of 443 (2001: 4,483, 2000: (2,717)) divided by the weighted average number of ordinary shares outstanding during the year of 728,696,320, (2001: 728,696,320, 2000: 706,584,862). There are no potentially dilutive securities, therefore, diluted earnings per share equal basic earnings per share.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

For monetary assets and liabilities, the carrying amounts approximate their fair value and balance sheet items denominated in foreign currencies have been translated at appropriate period end exchange rates.

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



28. RELATED PARTY TRANSACTIONS

(a) The Government and OAO Svyazinvest as shareholder

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

In the past, a number of Government statements have indicated that it is considering restructuring the telecommunications sector controlled by Svyazinvest. No action with respect to the Group has so far been taken (refer to Note 30).

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

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

(c) Transactions with the Svyazinvest Group

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

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

Tariffs for services between the Company and the Svyazinvest Group are materially affected with governmental regulation as disclosed in paragraph (b) of this note.

In 2002 the Group, acting as a lessor, entered in a number of lease agreements with companies of the Svyazinvest Group.

The amounts of revenue and costs relating to the transactions with the Svyazinvest Group were as follows:

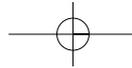
	2002	2001	2000
Revenue	9,394	8,047	7,721
Expenses related to services provided by other network operators	(264)	(144)	(116)
Administration and other costs	(160)	–	–

In addition, Svyazinvest participates in the dividends declared in the year, commensurate with its shareholding.

The amounts of receivables and payables due from the Svyazinvest Group were as follows:

	2002	2001
Lease receivables – non-current portion	972	–
Lease receivables – current portion	688	–
Long-term financial investments	140	–
Short-term investments	69	–
Amounts owed to customers	(662)	–
Accounts receivable, net	1,879	976

There are no trade payables due to the Svyazinvest Group.



(d) Transactions with the Government

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

The revenues arising from these services were as follows:

	2002	2001	2000
Revenue	1,211	571	489

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

	2002	2001
Accounts receivable, net	563	802

There are no payables due to such organizations.

The Government also uses the Group's expertise in acquiring communications equipment for various budget organizations. No charge is levied for these services.

(e) Transactions with Investees

The Group also transacts a wide variety of business with entities and companies in which it has investments, including associates over which it exerts significant influence. Such business includes telecommunications services, leasing telecommunication equipment and the provision of pension arrangement to employees. In the opinion of the directors, such business is conducted on arms' length terms and at rates prevailing in the open market.

A summary of these transactions is as follows:

	2002	2001	2000
Lease income	–	74	28
Charges by network operators – national	(26)	(437)	(191)
Pension payments	(85)	(167)	(182)

Amounts included in the consolidated balance sheets relating to the operations with these entities were as follows:

	2002	2001
Accounts payable	(12)	(97)
Lease receivables	–	113
Accounts receivable, net	69	578
Loans receivable	60	–
Leased property, plant and equipment	–	759

(f) Directors' remuneration

During the year the Board of Directors consist of the following members:

Until June 1, 2002

Yashin V.N.
 Yemelianov N.P.
 Lopatin A.V.
 Panchenko S.N.
 Korolev N.M.
 Finger G.M.

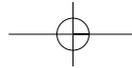
Belov V.Y.
 Vasin V.S.
 Osipchuk A.I.
 Polischuk V.A.
 Avdiyants S.P.

Until December 31, 2002

Yashin V.N.
 Yemelianov N.P.
 Lopatin A.V.
 Panchenko S.N.
 Ragozina I.M.
 Finger G.M.

Belov V.Y.
 Kuznetsov S.I.
 Osipchuk A.I.
 Polischuk V.A.
 Slipenchuk M.V.

In 2002, the total remuneration of the directors amounted to 21 (2001: 5, 2000: 7).



29. CAPITAL COMMITMENTS

The Group's capital expenditure program approved by the Board of Directors for the year ending December 31, 2003 projects capital expenditures of 4,521.

30. CONTINGENCIES

a) Legal proceedings

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

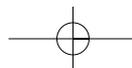
b) Taxation environment

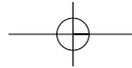
Russian tax legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years. However, management believes that adequate provision has been made for all material taxation liabilities.

c) Licenses

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

It is also a matter of public record that the Government intends to promote competition within the telecommunications industry, which may include the granting of additional long distance and international licenses to other operators. At present, it is not possible to determine the effects, if any, of changes in these matters on the results of operations or financial position of the Group.





In August 1996, the Company was granted three cellular licenses for operation in Novosibirsk, Khabarovsk and Amurskaya areas. The licenses gave the Company the right to provide wireless services on the GSM 900 standard for 10 years from the date of license registration (until October 2006). The Company was obliged to make the license fee payment in total amount of \$16.5 million for three licenses. No payments were made as of December 31, 2002.

The obligation would arise upon receiving a notice from the Federal Committee of GSM 900 operators. The Company has not yet received any invoices for payment. Management is confident that negotiations concerning the eventual fees due will result in significant reduction of the liability. As such, no accruals for cellular licenses have been included in the accompanying financial statements. Management believes that until such uncertainty is resolved, such non-accrual and non-payment will not have significant effect on the Company's operations.

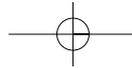
d) Restructuring

There have been a number of announcements by the Government and the Svyazinvest Group with respect to the planned restructuring of the national telecommunications sector. In its Program of Development of the Telecommunications Industry, presented to the Federal Government in December 2000, the Ministry of Communications has indicated that it will not contemplate a change to the Group's status as monopoly supplier of long distance and international communications until 2005-2006 at the earliest.

In addition to industry restructuring plans, the Government announced plans to privatize Svyazinvest in 2003 or 2004. Effects of the industry reform will be reflected in the Group's financial statements as they become known and estimable.

e) Insurance matters

In early 2003 the Company has insured the most of its telecommunication equipment. In the opinion of directors the insurance coverage is sufficient to compensate direct losses which could arise from technical breakdown.



31. CREDIT RISK MANAGEMENT

A portion of the Group's accounts receivable is from State and other public organizations. Collection of these receivables is influenced by political and economic factors. Management believes there are no significant unprovided losses relating to these or other receivables at December 31, 2002.

Financial instruments that could expose the Group to concentrations of credit risk are mainly trade and other receivables. The credit risk associated with these assets is limited due to the Group's large customer base and ongoing procedures to monitor the credit worthiness of customers and other debtors.

The Group deposits available cash with several non-state owned Russian banks. Deposit insurance is not offered to banks operating in Russia. To manage the credit risk, the Group allocates its available cash to a variety of Russian banks and management periodically reviews the credit worthiness of the banks in which such deposits are made.

32. INTEREST RATE RISK MANAGEMENT

Trade and other receivables and payables are non-interest bearing financial assets and liabilities. Interest rates payable on the Group's loans and other borrowings are disclosed in Notes 18 and 19.

33. SUBSEQUENT EVENTS

In February 2003 due to the fire in one of the Moscow telephone stations equipment of the Group's associates – Telmos and Golden Telecom was significantly damaged. The Group's share of losses incurred by these associates as a result of this event in 2003 would be limited to 150.

In 2003 the Group sold its investments in NCC, Baykalwestcom and Eniseytelecom to companies within the Group of OAO "Svyazinvest" for the following price:

Investment	Interest sold	Sales price received
NCC	50%	636
Baykalwestcom	49%	270
Eniseytelecom	49%	397

In June 2003 the Group signed an agreement with Alpha Bank (Russia) related to restructuring of debt to Vnesheconombank (refer to Note 18). Upon the agreement, the Group debt shall be converted into notes payable totaled to amount of US\$ 100 million (3,070) repayable within 36 months in 6 equal semi-annual installments of US\$ 16.7 (512) each.

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