Uralsvyazinform

Annual Report 2002

уралсвязьинформ

About us

We provide local, long-distance and international telephone services, including fixed-line, mobile, data, internet, TV and radio, through our own infrastructure to the 15.5 million people in the Perm, Sverdlovsk, Chelyabinsk, Kurgan and Tyumen regions, Khanty-Mansi and Yamalo-Nenets autonomous areas. The company serves over 3.6 million customers, 600,000 of which are mobile clients.

We are planning for an exciting future. We recognise that we have to build a platform of excellence in customer service if we are to realise our ambitious financial targets. We have also made good relations with shareholders and the investment community a priority, both in Russia and abroad. This includes high standards of corporate governance and disclosure.

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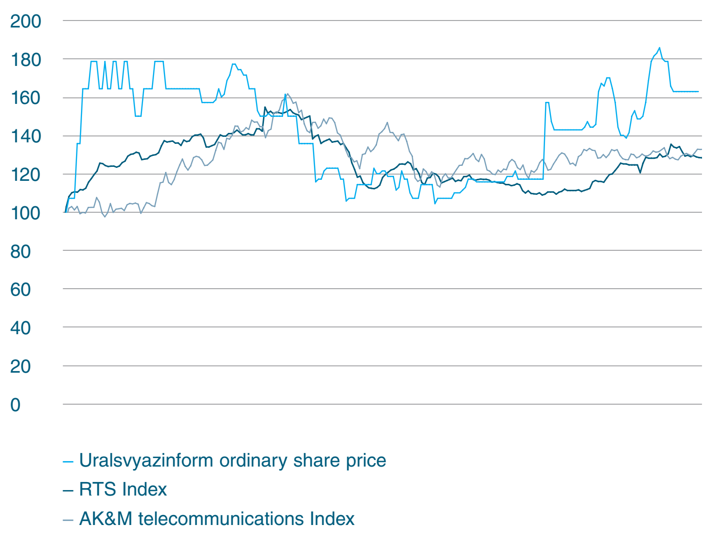
Financial highlights

RUR17.7 bln Revenues	RUR5.3 bln EBITDA	RUR2.9 bln Operating profit	RUR1.2 bln Net profit
29.9% EBITDA margin	6.6% Net margin	RUR0.034 Earnings per share	20.9% mobile services share of total revenue

Share prices



All multiples are based on International Accounting Standards accounts in RUR terms

Chairman's statement

I am delighted to report another year of significant progress and achievement

Towards our goal using 21st century technology

Our goal is clearly set out in our Mission Statement: "Meeting our customers' needs for telecommunications and information services for life in the 21st Century Global Information Community".

During 2002 we spent a great deal of time planning the long-term strategy for the new, united company. We are aiming to create new opportunities to deliver value-added services for our markets that also yield a stable income for our business. These include provision of fixed line, cable television, broadband internet access and GSM mobile services.

The key strategic challenge is to develop a dynamic business-oriented service alongside our very large retail market.

As you might expect, we are naturally looking to implement this strategy using a range of new, modern technologies. Our aim is a package of up-to-date services accessible to the customer "through a single socket".

Growing our market position

Our company now holds the leading position in the Urals region in the provision of local and long distance fixed line telephone services, where our market share is 87% and 71% respectively, for the communities we serve. The same holds true for mobile services where our share is 57%.

In the mobile market we take pride in the fact that our market penetration is five times that of our major competitor.

We face the most serious competition in the mobile telecommunication services and trunk-line markets (including internet). The number of operators holding licenses to provide long-distance call service is growing. However we anticipate that our progressive tariff policy, aimed at decreasing cross-subsidisation, will help the company to retain its leading position in the long-distance segment, for both business and private subscribers.

We recognise that competition is good for us and that collectively we are building a bright new future for all our customers, both in homes and offices, as the range of services available to them grows. We are confident that our company is well able not only to maintain its market share, but to increase it substantially.

The benefits of consolidation

Most importantly, the consolidation enables us to improve efficiency in the use of all our resources.

By way of example, since reorganisation a rational centralisation of purchasing has produced savings of nearly 15%. Whilst other such benefits will be pursued, some key functions, such as customer relations, and service support and maintenance, will continue to be a local responsibility, located close to the consumer.

The state's influence on pricing

During the course of 2002 our senior executive team worked closely with the Communication and Antimonopoly Ministries. We developed a range of local pricing scenarios with them to try and determine the economically justified value of communication services.

As a result of this work we achieved a rationalisation of rates across the region. We then looked at reducing the degree of cross-subsidisation that currently occurs, especially in respect of long-distance, intercity and international rates, to be offset by an increase in subscription fees. This would allow a further reduction in long-distance call rates for homes and businesses.

Finally, we reached an understanding with the Ministry for Antimonopoly Policy for further study of call rate reform within the sector during 2003.

Dividend

The board of director has recommended to the general meeting of shareholders the following dividends, to be paid in cash, for the 2002 fiscal year:

- 0.00394 rubles per common share
- 0.00910 rubles per preference share

Our staff

We recognise that our employees contributed considerably to the development of the company, and especially to the business of the constituent companies. The senior executive team of Uralsvyazinform is determined therefore to make the inevitable process of management restructuring and staffing review less painful. To this end we have been able to engage in a meaningful dialogue with the trade unions.

We continue to search for compromise, where possible, and for mutually acceptable solutions, including voluntary medical insurance and additional pensions with a non-government pension fund. We have an active Human Resources program and accept our wider social responsibilities as a major employer in the areas we are based. All this we see as being in the best interests of all our employees.

However, we have also to recognise that the restructuring has created new jobs. Mostly these are well paid opportunities, which require strong qualifications and relevant experience. It has brought into the company new people who have helped rationalise the structure still further, and introduced new, improved management methods and marketing techniques. We are increasing the skills base and qualifications of our staff steadily through training courses at institutes and through internships with companies, especially with our equipment suppliers

The importance of investor relations and better disclosure

We have made good relations with shareholders and the investment community a priority, both in Russia and abroad. As part of this commitment we aim to achieve acceptable standards of corporate governance, information transparency and disclosure.

Our goal is to deliver benefit to our shareholders through more effective use of the capital we employ in the business, in turn leading to proper recognition of the value of the company.

Put simply, we want our company to be the best in the sector.

Vadim Belov
Chairman

Director-General's review

Successful launch of the new company

2002 proved to be a year of restructuring and consolidation for the Russian telecommunications sector. Against this background, we again demonstrated at Uralsvyazinform that:

- We delivered against the demanding targets we set ourselves
- We can tackle ambitious and complex projects successfully

In my review last year, I emphasised that further growth of telecommunications business in the Urals region hinged on us forming a united pan-regional telecommunications company.

"We turned this vision into reality"

The reorganisation of the Company was carried out as scheduled, in full accord with Russian regulation, and met with the approval of the overwhelming majority of shareholders.

Our key competitive advantages

The new structure means that we now operate as a company with:

- A dominant position in the regional telecommunications market
- Long experience in providing telecommunications services
- A record of successful development of highly profitable cellular communications
- Flexible tariff policies for non-regulated services
- Reduced costs
- Aggressive investment policies to develop more high margin services
- Top quality services, marketed through a comprehensive sales network

Results are already showing through

The new, merged Company's performance is living up to the forecasts made by many analysts whilst the reorganisation was underway.

All in all, it was a good year for shareholders. In 2002, our ordinary share price surged 47%, against a corresponding 34% rise in the RTS Index. Taking account of the average inflation rate of 15%, $100 invested in the Company in January 2002 grew to $140 by year-end All our financial indicators demonstrate impressive progress. These have allowed us to continue to develop our business aggressively and to plan confidently for an exciting future.

Enhancing our network and services

We concentrated on three key areas in 2002:

- Developing the intra-zonal network
- Growing our mobile GSM900/1800 services
- Building local municipal networks

Developing the intra-zonal network

Last year, the Company doubled the length of fibre-optic inter-zonal communications lines to 2,800 kilometres. By the end of the year, the length of digital radio-relay communications lines amounted to 2,100 kilometres. This area of business remains high on the Company's agenda because of the backlog of demand for international and internal long-distance services, and also for a quality data transmission network, including internet services. It currently attracts up to 35% of all investment resources.

Growing our mobile GSM900/1800 services

Uralsvyazinform is now the fifth biggest cellular operator in Russia. By the end of the year, the company boasted 500,000 GSM 900/1800 subscribers. Our Group holds licenses for providing GSM 900/1800 services across the Urals region, apart from Sverdlovsk district where we plan to enter the market there in 2003. We also plan next year to strengthen our competitive position, to introduce additional capacity representing more than half a million new lines, and to raise subscriber numbers to 1,000,000.

Building local municipal networks

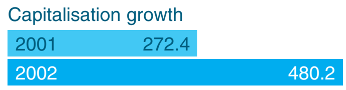
Since 2001, the development of local municipal services has been based on fibre-optic technology and the building of a multi-service network. Last year saw an increase of 338,000 lines and 164,000 subscribers. We are aiming for growth rates of 10-12% in these figures annually. At the same time, the main challenge in the development of this market is the regulation of the tariffs and for their adjustment to recognise economically justified costs, including a capital investment component.

Building a reputation for customer service

Being a new company enables us to develop a new approach to looking after our customers. We recognise that we have to build a platform of excellence in customer service if we are to realise our ambitious financial targets.

We are therefore re-modelling our customer support infrastructure to ensure that the resources are effectively deployed.

We are developing a range of measures so we can track the efficiency of our service, including the installation of a sophisticated CRM system. Through operations like our new multi-function call centre, we will focus particularly on important service features such as: the time taken to respond to and satisfy our customers' needs, callout response, new installation completion, fault monitoring, line upgrade response, billing queries, and network reliability and performance.



These are all measures that management and staff at every level will use to ensure we retain and improve customer loyalty. For corporate and other major customers we are introducing Personal Service Managers so these key clients have a named individual looking after their needs and to whom they can refer.

Delivering excellent service is a culture that we want to embed in our company. Our staff training and development will concentrate on this aspect, making it the central feature of our training courses.

The right course, the right results

I am sure we are on the right course. Our upgraded strategy will deliver improved financial results and position us as a client-friendly company with a full-service offer, delivering top quality and maximum benefit to users.

We confirm our commitment to a strategy aimed at improving the Company's market capitalisation and investment appeal. We have also started down the road of improving corporate governance, increasing transparency and disclosure, and establishing professional relations between the management, the shareholders and the investment community. In recognition of our efforts, S&P and Fitch awarded the Company a "B" rating, and S&P assessed the Company's corporate governance to be, at level 6.0, the second-best rating amongst Russian companies.

Looking to the future

I should like to thank our shareholders and followers for their continuing interest in Uralsvyazinform and for all the support and assistance we received with the successful reorganisation.

I know that all our employees and the management team, following their impressive achievement in the year under review, will do their very best to live up to your expectations next year.

Now the challenge is to further consolidate our market position, improve the investment in our existing infrastructure, and gain a firmer foothold in the regional market. This will deliver value. Our new-found synergy will make it possible.

Vladimir Rybakin
Director-General

Group overview

USI was incorporated on 30th September 2002 in the Urals federal district, and represents a merger of seven regional telephone companies. Reorganisation has led to the introduction of new technologies, improved labour organization and productivity, and enhanced service quality

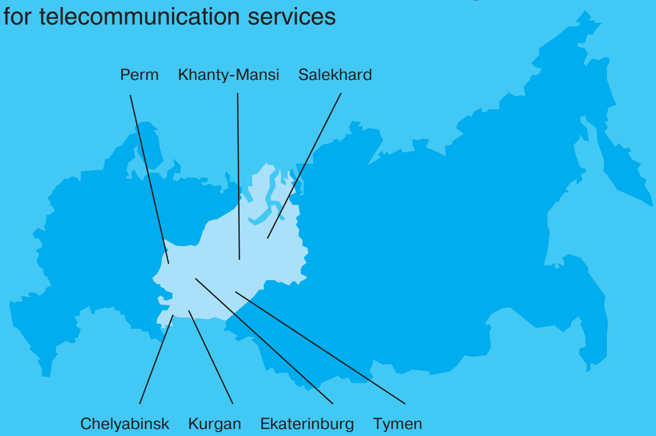
Uralsvyazinform (USI) was incorporated on 30th September 2002 in the Urals federal district, and Perm region. It is the result of a merger with the following seven regional telephone companies: Uralsvyazinform, based in Perm region, Uraltelecom, based in Sverdlovsk region; Svyazinform based in Chelyabinsk region, Khantymansiyskokrtelecom based in Khanti-Mansi Autonomous District, Tyumentelecom based in Tyumen region, Yamalelektrosvyaz based in Yamalo-Nenets Autonomous District and Elektrosvyaz, based in Kurgan region.

In 2002 USI set in train a reorganisation of the new group organisational structure. This was so as to obtain full benefit from the introduction of new technologies, improved labour organisation and productivity, and enhanced service quality.

As a result the structure of the vertically integrated company consists of seven regional branches and two intra-regional branches, which are involved in mobile and TV services, and now report direct to USI's General Management based at Head Office. Centralised departments have been established covering: Economics and Finance, Marketing, Network Development, IT, and Personnel. The new organisational structure avoids duplication of activities, considerably enhances the marketing drive to increase sales and improves utilisation of resources and service quality.

Markets served by us

Regional market is characterized by high industrial production development potential and strong demand for telecommunication services



Region size: 1.9 million square kilometers
Regional population: 15.5 million
Urban centers served: 80%
Industrial production volume (2001):
$37.4 billion (18.5% of total Russian)
Fixed line penetration: 19 phones per 100 inhabitants
Mobile line penetration: 9 phones per 100 inhabitants

The company has licenses for and provides the following services:

- Long-distance & international communications
- Mobile communications – GSM900 and NMT450i standards
- Local fixed line telephony
- Internet and ISDN, XDSL, Ethernet and IP-telephony data transmission
- Fax services
- Television and radio broadcasting

Share information

Ordinary: RTS ticker – URSI, MICEX – RU14URSI7011
Preference: RTS ticker – URSIP

Listed & traded on

Russian trade system (RTS): first level quotation list "A"
Moscow Interbank Currency Exchange (MICEX): first level quotation list "A"

Also traded on

The Level 1 ADRs are quoted on NASD OTC – ticker UVYZY
Berlin Stock Exchange: ISIN – US9168871021
Frankfurt Stock Exchange: ISIN – US9168871021
NewEx,Vienna: ISIN – US9168871021

Year in review

The path to merger

January 3rd
Ministry of Anti-Monopoly Policy, Russian Federation, approves the merger with the 6 telephone companies to form Uralsvyazinform.

February 5th
Teleconference for Western and Russian investors featuring Uralsvyazinform CEO Vladimir Rybakin devoted to topic “Urals region telecoms merger”.

February 28th
Uralsvyazinfrom presents to Foreign Embassies representatives, business circles and media as part of showcase of Perm District arranged by the Ministry of Foreign Affairs.

March 12th
Uralsvyazinform convenes a meeting devoted to intra-zonal telecoms merger with Western-Urals, Western-Siberian and Urals subsidiaries of Sberbank of Russia.

March 13th-20th
Uralsvyazinform takes part at the major international exhibition devoted to Information technologies, telecommunications and software “CeBIT” (Hanover, Germany).

April 15th-17th
CEO Vladimir Rybakin conducts a roadshow with foreign investors in New-York and London, organised by Svyazinvest.

April 27th
Uralsvyazinform wins the district competition for the best stable company constantly improving operations efficiency in 2001.

May 13th-17th
Uralsvyazinform presents at the 14th International Exhibition “Svyaz-ExpoComm – 2002”.

May 31st
General Meeting of shareholders of the constituent companies held.

June 10th
Federal Security Commission registers newly merged Uralsvyazinform share and bond issues.

August 7th
Federal Securities Committee of Russia registers the 1bln. RUR interest bearing bond issue of Uralsvyazinform (02 series).

August 23rd
1 billion rubles bond issue successfully placed and begins trading on MICEX.

September 30th
Ordinary and preference shares of the constituent companies are cancelled from the State Registrar of Legal Entities and exchanged for corresponding shares in Uralsvyazinform.

October 21st-25th
Uralsvyazinform presents at the 11th International Forum “InfoComm – 2002”

November 11th
Federal Securities Committee of Russia registers the results of the bond issue and share exchanges. This enables the cancellation of the shares and bonds of the constituent companies.

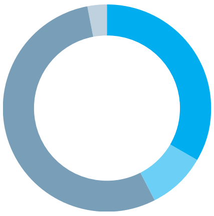
December 17th
The first General Meeting of shareholders of the new Uralsvyazinform is held.

December 31st
Mobile customers number 445,000 at year-end.

Fixed line services

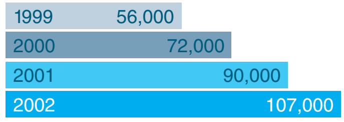
At the end of the year capacity stood at 3.3 million lines, of which over half are linked to digital exchanges. New network capacity uses fibre-optic cabling to deliver broadband services to our customers

The public network

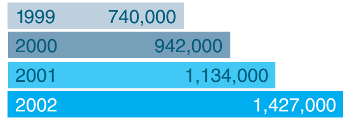


- Cross-bar exchange 33.6%
- Ten-step exchanges 9.2%
- Digital exchanges 54.7%
- Electronic exchanges 2.5%

Traffic Statistics: 1999–2002
International traffic (000's of minutes)



Traffic Statistics: 1999–2002
Long distance traffic (000's of minutes)



The public network

All newly-installed facilities of the local telephone network are based on fibre-optic networks, which include broad-band features for subscribers.

During the year over 20 new digital telephone exchanges have been built, and existing exchanges expanded, providing additional capacity of just under 340,000 lines. Obsolete equipment has been replaced by programmable control systems capable of handling over 30,000 lines each.

As of 1st of January, 2003 the installed capacity of the fixed network of the company was 3.3 million numbers. Digital switchboards account for 1.9 million numbers (57% counting with Electronic ex).

	2001 year end	**2002 year end**
Total Equipment Capacity, lines	3,112,430	**3,323,897**
Urban network, lines	2,740,288	**2,950,801**
Rural network, lines	372,142	**373,096**
Equipment capacity in use, lines	2,817,298	**2,978,803**
Urban network, lines	2,498,985	**2,650,597**
Rural network, lines	318,313	**328,206**
Total subscribers	2788348	**2,951,913**
Subscriber growth	161,505	**163,565**
Urban network, lines	151,612	**152,745**
Rural network, lines	9,893	**10,820**
Digitalisation of switching systems, %	49	**57**
Digitalisation of intra-zonal lines, %	19	**27**
Penetration, %	18,2	**19,3**

Primary lines

The total number of primary lines linked to the network is 2.9 million (2.6 million in the urban network, 0.3 million in the rural network) with domestic/retail users accounting for 2.5 million (86%). The number of lines increased by over 160,000 in 2002.

Service penetration across the five districts and the two autonomous districts is 19.3 lines per 100 people (21.1 in urban areas, and 11.1 in rural areas).

The number of applicants for telephone services for whom access had not yet been provided (we also call this the "waiting list") by the beginning of 2003 was 450,000 in the urban areas and 43,800 in the rural areas. The number of applicants for telephone services in the beginning of 2002 totalled 582,000.

The expansion of the SDH network has been completed in Kurgan. This has enabled the expansion of the local network in Perm and the inclusion of the large towns and the rural centres of the oblast.

Time-based billing for local telephone calls

Currently time-based billing of telephone calls has been introduced in the Perm and Tyumen regions of the company. Equipment for time-based billing covers 2.5 million numbers or 75% of the total installed capacity (82% in the urban areas and 17% in the rural areas). Uralsvyazinform's billing plans sees the introduction of time-based billing in the remaining divisions of Ekaterinburg, Chelyabinsk, Khanty-Mansiisk, Yamalo-Nenetz and Kurgan during 2003.

Wireless radio (WR) network

The company uses two main types of radio access:

1. A CDMA (IS-95) network operated in two region: Tyumen (4 base stations) and Chelyabinsk (24 base stations).
2. A DECT network operated in three areas: Perm region, Khanty-Mansiisk and Kurgan regions.

The total number of WR subscribers to the CDMA (IS-95) and DECT networks is 40,000.

The WR systems are being successfully and effectively used to provide telephone communications for new housing development projects, consisting of privately-owned cottages, in suburban areas.

Long distance and international services

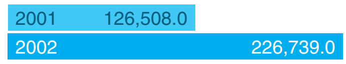
At the end of the year subscriber-dialled long distance telephone services were available in 53 cities and 148 towns of the Urals, representing almost all the cities and towns of the region. 33 cities and 67 towns (49%) are linked by a digital network to the capital of their district. The number of Uralsvyazinform's outbound automated channels increased by 1,193 in the period under report, and the number of the zonal communications channels increased by 1,306.

The overall installed capacity of the company's automated long distance telephone service at the end of the year was just under 53,000 channels.

At the end of the year digital equipment was being used in 93% of intra-zonal networks. Digital transmission systems are now used on 41% of the intra-zonal primary network lines. 1,500 kilometres of intra-zonal communications lines were installed in 2002, of which 72 kilometres were relay lines. High-speed transmission lines using synchronous digital hierarchy (SDH) equipment have been installed in Sverdlovsk, Perm and Chelyabinsk districts and in the south of Tyumen district.

A real competitive advantage is bundled access to internet and traditional telecom services. We offer broadband internet, ISDN and intelligent networks to the business sector via our established communications structure

Internet services income



Group review

Data and Internet services

New communications services

Data transmission and broadband internet access
The Company is working to install a modern telecommunications infrastructure and plans to develop the following services:
- ISDN
- Broadband
- Internet
- Intelligent networks
- Cable TV

The Internet, with its dynamism, is the one of the most promising components of Uralsvyazinform's service offering. One of our real competitive advantages is bundled access to internet and traditional telecom services. Our forecasts predict a quadrupling of the number of customers taking internet services.

Equally promising is broadband access, combining telecom services, high-speed internet access, and cable TV, including 'video on demand'. Corporate clients will have the opportunity to improve productivity through the creation of their own corporate networks. We recognise that demand for services such as 'video on demand' will be very much content driven.

Our first priority is to install the new technology across our network. In 2002 work has continued to put in place capacity for data transmission services and broadband internet access by the expansion of existing networks and the building of new ones.

During the year the following facilities have been commissioned:
- Multi-service IP/MPLS networks with 4 hubs and transmission speeds of up to 622 Mbit per sec in Tyumen; and the Perm network providing 872 XDSL ports at 18 locations. This has enabled fast internet access, the building of virtual private networks (VPNs) and access to information and entertainment services (game servers, video on demand, etc.)
- A data transmission network in Kurgan using Gigabit Ethernet technology
- Expansion of existing hubs plus 4 new hubs for the data transmission network in Sverdlovsk district, giving a capacity of 92 switched access ports
- An Internet access network of 300 connection hubs in Chelyabinsk district
- Internet access hubs using Cisco equipment in Tyumen and Ishim
- IP-gateway facilities for the public network in Tobolsk, Tyumen district for inbound and outbound telephony, using STK "Dialog" digital platform
- A call-centre with 30 channels in Tyumen, allowing expansion of the services provided by the local office

The ISDN infrastructure has also been used extensively for the provision of the new services. The Yamalo-Nenets office now offers an ISDN-based service.

Khanty-Mansi office has expanded significantly the range of interactive services based on Telspec equipment. We added free-call and universal access number services to such services as mail box, toll-free calling, operator-assisted calls, intelligent call-forwarding and other features.

Demand for video telephony services is growing – new offices providing these services were opened in 2002.

During the year work continued on building the network for corporate customers, solely based on fibre-optic cable (using standard 48-fibre cable). This will allow greater flexibility in satisfying the demands of corporate clients, provide a platform for expanding local networks and help make the company more competitive.

USI is now the fifth largest cellular operator in Russia, with nearly half a million active subscribers. Further investment in building the company's profitable mobile services network is a major priority

Group review
Mobile services

Network coverage

The company is now the fifth largest cellular operator in Russia, with nearly half a million active subscribers. Uralsvyazinform and its affiliates provide cellular communications services using the following standards: GSM 900/1800, NMT 450i, and DAMPS 800.

Company	Standard	USI stake	District license	Number of users
01.01.03				
USI	GSM900/ 1800	100% ownership	Perm	157,000
	NMT 450i			14,000
	DAMPS800			2,000
Yuzhno-Uralskii	GSM 900/ 1800	100%	Chelyabinsk	157,000
Sotobyi telefon			Kurgan	
Ermak RMS	GSM 900/ 1800	90%	Tyumen, including Khanty-Mansi and Yamalo-Nenets autonomous districts	82,000
Others	NMT 450i DAMPS 800	50-51%	Sverdlovsk, Kurgan, and the south of Tyumen district	33, 000
Total				**445,000**

Infrastructure

In 2002 the network of mobile communications base stations comprised the following equipment: BTS 312 (Huaway, China), Evolium A9100 Medi (Germany), Evolium A9100 Mini (Germany), DAMM BS NMT-450i (Denmark), BD-34 Nokia (Finland), MSC/VLR (Alcatel, Germany), AXE-10 (Ericsson AB).

Additional GSM-900/1800 and NMT-450 base stations have been installed in the cities and the regional centres. This has significantly improved communications quality and expanded service coverage.

Multi-purpose antenna masts have been installed in all regions. As well as allowing development of cellular communications, they will be used for growing other services offered by the company including international/long-distance communications, TV, wireless radio, and paging.

Capacity

During the year under review, the capacity of the GSM-900/1800 switchboards increased by 275,000 lines, as below:

Perm	+ 50,000
Tyumen and district	+ 50,000
in Yamalo-Nenets autonomous district	+ 41,000
in Khanty-Mansi autonomous district	+ 34,000
in Chelyabinsk and district	+ 100,000

A prepaid card service has been introduced to help drive up usage and reduce the incidence of unpaid bills.

Mobile service standard selected

All further mobile phone development will be based on GSM 900/1800. This standard already operates throughout all the regions served by the company, with the exception of Sverdlovsk district. The total number of Uralsvyazinform subscribers on GSM 900/1800 at the end of the year was just under 400,000.

The main objective for the company's mobile phone business in 2003 is to penetrate the market for cellular communications in Sverdlovsk district and the city of Ekaterinburg, again using GSM 900/1800. The plan is to consolidate existing and affiliated operations under a single brand.

Plan for growth

Further investment in building the company's cellular communications network is a top priority. It will underpin the development of highly profitable communications services and thus strengthen the company's market position. Plans for 2003 include growth of switchboard capacity by another 554,000 lines and the installation of 222 base stations in Perm, Tyumen, Khanty-Mansi and Yamalo-Nenets. Introduction of a uniform billing system and intelligent network services for GSM subscribers, provided under a single brand name, will also be studied

Commercial Director's review

The new organisational structure of the company places considerably emphasis on our commercial operations. Customer service is given proper priority, together with a focus on the more profitable segments, primarily business and high-value retail customers

Commercial review
The new organisational structure of the company places considerably emphasis on our commercial operations. Customer service is given proper priority, together with a focus on the more profitable segments, primarily business and high-value retail customers.

First priorities
The first priority is to formulate a long-term marketing strategy for the company, including identifying when profit growth becomes driven by the introduction of new services as opposed to simple extension of the network. Also included in this work is:
- Developing packages of services to meet the needs of different categories of subscribers
- Building a brand family for the various types of service
- Creation of a co-ordinated marketing plan delivering a full CRM package, including identification of new services

Marketing will support the billing and sales network, and oversee the daily monitoring of sales and earnings performance against plan. It will develop a cohesiveness across the range of services in the manner which they are presented, and a strategy for sales promotion, including using tariff adjustments to stimulate demand. This will especially be so in the case of our new services where we will try to persuade existing customers, again using the tariff structures, to migrate across to additional or upgraded services.

We will also work towards the introduction of a single price list with a uniform pricing policy across all branches, working with MAP as the regulatory body. We will be responsible for effective liaison with Rostelekom. The company will work to establish new channels for sales and service for corporate customers including:
- Electronic receipt of orders
- Provision of “turnkey” services, especially those based on the capabilities of our multi-service network and mobile communications
- Facilitating customer access (“the last mile”)
- Single contracts at corporate rates, bundled services and customer support around a “personal manager” system

We are developing internal structures and procedures to support the sales and customer service systems to deliver:
- Uniform billing and payment systems, including modern payment formats (prepaid cards, Internet-banking etc)
- A single call-centre;
- A cross-company CRM system
- Full-scale management information system monitoring sales and market segment
- Improved relationships with alternative operators including joint planning of the development of interactive networks

The above goals have been identified by the General Directorate of the company, based on an in-depth analysis of the performance of the business operations in the regional branches. During 2002 commercial departments have been formed in all divisions of the company, manned by qualified personnel working to a common framework. Success in achieving these objectives in 2003 should result in a unified commercial department focused on enhancing the financial performance of the company.

Tariff policy
The main objective of our tariff policy are to:
- Reduce rate differences, including those involving time bands, for local and long distance calls in the regions
- Eliminate rate differences between commercial and state-funded organisations,
- Cap volume-related pricing for long-distance communications for organisations
- Reduce the amount of cross subsidy between the types of services and the various user categories

Whilst in 2002 the rates for long-distance and international calls remained unchanged, monthly subscription charges for local call services increased, especially for domestic users. There was also some rationalisation of the charges scale.

Formerly, for domestic uses, subscription charges ranged from 90-95 roubles for Ural region and from 90-170 roubles for the Khanty-Mansiysk and Yamalo-Nenetsk regions. For both business users and state-funded organisations, charges remain in the ranges 135-145 roubles and 270-345 roubles respectively. Subscription payments increased on average by 28%.

In 2003 the Company plans rate changes in the package of regulated services. It will include an increase in the rate for local communications services by 40%and, in general, a reduction in the rates for long-distance calls by a factor of between 10-18% for domestic users, and between 11-17% for business users and state-funded organisations. Cellular communications are a non-regulated service and thus tari ffs can be more market-oriented. We reduced rates for GSM and NMT services, including a reduction in the average rate for one minute of call time. Network access charges have been eliminated, and a “pay-as-you-go” tariff has been launched in Perm district. These changes have led to an average reduction in charges per subscriber of $18 in the Urals region and $30 in the Northern region. The changes in the tariffs have also resulted in a major increase in the number of the GSM network subscribers, amounting to 250,000 subscribers across the whole company. This in turn led to us meeting our GSM income target for the year.

During 2002 considerable time was spent preparing for the introduction of a unified company-wide tariff for cellular services provided by Uralsvyazinform and its affiliated companies. Further reductions in rates are planned in 2003. This is expected to lead to a further increase of around 580,000 in the number of the subscribers, again enabling income targets to be met.

In addition, one of the main goals the company focused on in 2002 was the introduction of time-based charging for calls in 5 of the merged companies. We completed all the work involved in the purchase and installation of the necessary equipment and commissioning of suitable billing systems. It is anticipated that by the end of 2003 time-based charging will be fully operational.

However, the adoption of either the revised Federal Law On Communications or a new methodology for determining the time-based cost of local calls may result in changes to our plans. Currently the legislators hold different views on this latter issue. Time-based billing is not a policy cast in stone for the Company but rather just one method to improve the economic efficiency of the Company’s operations.

Group review

Investment review

Rationale

The rationale behind the company's increasing use of technology is the move towards the global information society of the 21st century. The telecommunications sector is itself influenced by the creation of networks able to integrate into a global information infrastructure – the "Global Village".

To date the technological consequences of this concept can be found in the architecture of the Next Generation Network (NGN) – a step-by-step transformation of multiple narrowband specialized networks into an integrated broadband network, allowing for the introduction of new services quickly and flexibly.

Priority Areas

The company's policy on the use of technology includes the following priority development areas for the inter-regional information and communications network:

- Consolidation of the communications network for the new company
- Digitalisation of the regional branch core network
- Development of promising communications activities leading to new and expanded high margin services
- Introduction of information technologies
- Formation of a centralized system of network control, including resources and services.

At the end of 2002, the company's capital investment amounted to RUR4,010.0 million.

Investment in 2002

In line with the company's investment planning policy, new investment was allocated to the following key groups of projects:

Business development	RUR3,491.5 million
Refurbishment and maintenance of the infrastructure	RUR471.6 million
Others	RUR46.9 million

The company financed these projects out of shareholder funds and borrowings (comprising bank loans, borrowings from other organizations, secured loans, loans from equipment suppliers, financial leasing, the Government's budgetary credits, and funds from the budgets of the Federation's constituents), including:

Equity	RUR1,276.1 million
Borrowings	RUR2,733.9 million

Principal Investment Targets in 2003

The total volume of capital investment planned for 2003 is RUR5, 580.5 and will be funded through equity and borrowings, including:

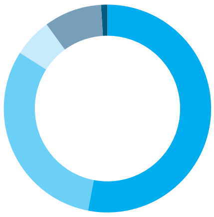
Equity	RUR2,199.7 million
Borrowings	RUR3,380.8 million

The composition and structure of any investment will again be focused on key areas determined by the company's core business activities and technology policy.

In 2003, the principal investment targets will be:

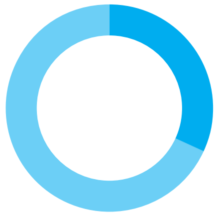
- Development of land-based GSM-900 mobile networks
- Construction of facilities for the intra-zonal primary networks
- Expansion and refurbishment of local networks, offering fibre-optic access to help drive sales
- Development of new services: Internet, IP-telephone, multi-service and intelligent networks, and call centers
- Construction of a corporate information system

Capital expenditure



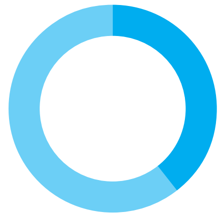
Short-distance lines	RUR2,277.7 mln
Mobile lines	RUR765.9 mln
Long-distance lines	RUR597.5 mln
New services	RUR312.8 mln
Other	RUR56.1 mln

Investments 2002



Equity	RUR1,276.1 mln
Borrowing	RUR2,733.9 mln

Forecast 2003



Equity	RUR2,199.7 mln
Borrowing	RUR3,380.8 mln

Long distance and international communications
The plan is to increase the length of intra-zonal communications lines for all branches – 2,200 km in fibre-optic lines and 1,100 km in digital radio microwave links. The new lines will solve the shortage of channels for international services, cut the number of faults, and boost long-distance and international traffic. It will also cut leasing capacity from other operators, bring operating expenses down and introduce new technologies and communications services.

International channels (IATX) will be increased by 19,354 channels, and will include SSP functionality. The aim is to equip all the company's IATX lines with SSP functionality during 2003, and these units will be integrated into Exchanges to derive full benefit from the technology.

An investment feasibility study is underway, looking at optimizing the international communications infrastructure at Yamalo-Nenets branch.

Kurgan branch will withdraw a Quartz IATX from operation with a view to cutting operating expenses.

Local communications
In line with the Board's decision, fixed-line capacity is to be increased by another 356,100 lines, principally through the use of fibre-optic cabling to allow subscribers broadband access.

Another reason for the increased capacity is to enable seven-digit numbering to be introduced eventually at exchanges in Yekaterinburg, Perm and Chelyabinsk.

Each branch capital development plan has a special section devoted to implementing the requirements of the Federal Specific Program Social Development of the Countryside up to 2010. A part of the necessary funds are made available by the local authorities.

The Director General's capital development plan provides for funds to support the coin-box telephone network program (the coin-boxes can also be used with one of our Universal Calling Cards), the introduction of traffic monitoring and Russian network signaling control systems.

Wireless Radio (WR) solutions will be used to fill gaps in fixed-line coverage. Additionally, the 2003 capital program provides for the extension of the WR networks at branches already boasting a substantial installed capacity, using systems currently on stream. In 2003, Perm branch will serve as a testing and certifying ground for TDMA and CDMA technologies, from which should emerge company-wide technological solutions for (i) big cities, allowing increased potential for data traffic; and (ii) the countryside, where large distances are involved; here provision of mainly basic services are planned.

Development of new services
The following are planned:
- Introduction of intelligent network services modelled on Perm branch's platform. This includes installing network signaling control functionality.
- Multi-service network capability, to include expansion to handle branches' data traffic.
- Further development of internet access capabilities
- Introduction of more call centre operations

Multi-service network capabilities are based on IP/MPLS technologies, with access using xDSL and 10/100 Ethernet technology. These networks enable Internet–based virtual private networks to be established. The Khanty-Mansi branch bases its multi-service network on ATM technology. In addition to the above services, the IP-enabled networks are used to transfer voice traffic.

Cable TV networks are based on HFS technology, the most suitable for wire communications operators, and networks built on MMDS architecture will migrate towards it.

Risk review

Risks
The results of Uralsvyazinform's activities are affected by a number of factors, which cannot be fully controlled by the company. Although many of such factors are of a macroeconomic nature and affect all enterprises on the whole, some areas of the business may be particularly "sensitive" to certain risk factors. The list below is not an exhaustive list of factors which affect the business. There are also a number of factors which are insignificant at this moment, but that could have a significant impact on the company's activities in the future. All this can have a negative effect on the results of the company, its sales volume, profits, assets, liquidity and capital.

Political situation
Changes in the political situation, legislation, tax and general regulations affect the economic and financial activities and the cost effectiveness of Uralsvyazinform's activities in Russia. The character and the frequency of such changes, which are also usually not insurable, are unpredictable, as is their impact on the future activities and profitability of the Company.

Taxation
Presently there are a number of taxes levied in Russia at federal level: road tax, sales tax, VAT, unified social tax, other taxes as well as social insurance and welfare contributions.

The management of Uralsvyazinform thinks that tax liabilities have been fully reflected in the attached balance sheet. However there is still a risk that the position of the tax authorities regarding these is not settled, and that the tax liabilities could be subject to varying interpretations, which might be considerably different in their impact, again with potential significant impact on the Company's financial position.

Inflation
The main inflation-related risk facing the Company is an increase in costs, including the cost of material and fuel resources, which is greater than any rate increase in the tariffs for communications services. Rapid growth and expansion of operations can lead to difficulties in obtaining sufficient managerial and operational resources, thereby limiting our ability to expand the operations. Inflation can also increase general expenditure costs and decrease the Company's operating margin.

Contingencies
Breakdown or failures of the network or systems may have a negative effect on the company's activities. Any serious breakdown or failure of data transmission that takes place due to reasons which are beyond the company's control can have a negative effect on the company's activities and its financial results. Uralsvyazinform is constantly improving its strategy for overcoming the consequences of such accidents, which can include terrorist acts, industrial accidents, hurricanes, and floods.

Company assets are covered by insurance and Uralsvyazinform management believes the cover is adequate to deal with any such event.

Sector regulation policies
At present the Russian telecommunications industry is undergoing a process of reform. It is impossible to assess the future trends or effect of such reforms on the Company's activities. Potential reform of tariff policies can also seriously affect the Company's activities. Taking into account the existing uncertainty about sector regulation in the future, the Company's management cannot assess beyond question the extent to which any changes in sector regulation policies will affect the financial position and the results of the activities of Uralsvyazinform.

Tariff regulation
The company's activities are subject to considerable tariff regulation, which can affect its market share, competitive position, and profitability.

Most of the Company's fixed communication services are subject to state control (Ministry of Communications and Information of the RF, Ministry of Anti-Monopoly Policies and Support of Entrepreneurship of the RF). The tariffs for the services rendered by the company are also regulated. Uralsvyazinform cannot assure its shareholders that the authorities will not make its tariff policy more severe, or that they will not expand the range of regulated services.

Competition
The Company is operating in a field with a high level of competition (especially in the cellular and long-distance communications markets, and in internet services). There is a certain risk that the competitors will try to win a share of the market by considerably reducing their prices.

Implementing new technologies

Recently the rapid adoption of new technologies has been characteristic of the sector in which Uralsvyazinform is operating. It is expected that new technologies will appear together with further development of the existing products and services. The Company needs to constantly change its existing services and apply next generation technologies. However we can not predict the real effect the implementation of new technologies will have on the company's success or on their likely compatibility or otherwise with existing services.

Currency risks

Adverse changes in the currency rate can increase the Company's expenditure, decrease the reserves or make it impossible to repay the debt.

During the last several years there has been considerable fluctuation of the USD-ruble rate, which has led mainly to a fall in the ruble rate. The Central Bank of the RF applied different types of restriction on trade currency operations in order to support the ruble. The ability of the RF Government and the Central Bank to support a stable ruble rate will depend on many political and economic factors. As a result, any devaluation of the ruble in relation to the US dollar can have a negative effect on the Company by increasing our ruble costs.

Russian legislation regulating foreign investment

Russian legislation regulating foreign investment does not prohibit or restrict foreign investment in the field of telecommunications. However there is no common view on the likely future development in the manner and extent of governmental control of telecommunications. Since the telecommunications sector is viewed as a strategically important one for Russia, the amount of state control may increase, and foreign investment in the sector may be limited. Any such increase of state control or any restriction on foreign investment may hinder our access to additional capital.

The company has established 'the risk management policy' in view of the potential impact of some of these risks. the policy is kept under regular review by senior management.

Group review

Finance Director's review

Budgeting for success

As recorded earlier, the merger of the companies was completed on 30 September 2002. Discussions involving all the companies had begun as early as the latter part of 2001, with plans for 2002 the subject of mutual agreement. This work was carried out under the umbrella of the merger project with all budgets, both of the constituent companies as well as the merged entity drawn up under a collaborative agreement. Thus we were able to start 2002 as 7 different companies but by the beginning of the fo urth quarter to move relatively easily and quickly to being just the one operating entity.

As part of the 2002 budget process we paid particular attention to improving our efficiency ratios and to making sure all agreed capital investment plans were successfully implemented, some of which for the first three quarters were funded through Uralsvyazinform in its pre-merger form.

The results we achieved demonstrate that the merger was completed properly, effectively and on schedule. We have demonstrated strong results: RUR17.7 billion of revenues, EBITDA at RUR5.3 billion and net profits at RUR1.2 billion.

During the whole of last year considerable effort was devoted to restructuring the internal organization of the merged company. A uniform accounting policy was developed and a company-wide book-keeping and management information package established. Work also continued on improving cost control and costing, the latter to help substantiate the company's pricing policy.

New budgetary procedures were introduced in all companies, including new investment planning methods in a number. This helped standardize procedures and improve the accuracy and effectiveness of the ratios tracking our main business activities.

We reached common agreement on the financing the investment program. We raised RR 489 mln from RTK-Leasing, established a new RR 2670 mln credit line with Sberbank, and successfully launched a RR 1 bln Uralsvyazinform bond issue. Efforts continued to collect overdue receivables created as a result of the 1998 financial crisis. Current overdue receivables were settled, and any remaining creditor issues at the constituent companies resolved.

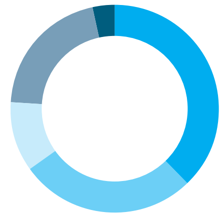
Ongoing seminars and training courses were held for managers from the finance, economic and accounting departments of all the companies to introduce the structural reorganization and its implications.

Tracking improvement

The last three years have been characterized by the sustained growth of the company. I should like to emphasize that almost all the main ratios of the companies comprising Uralsvyazinform have shown a continuous improvement. Ratios of particular importance to us are operating profits, net profits, EBITDA, revenues per line, and number of employees per line.

Three main factors have influenced improvement in operating ratios: firstly, an effective investment policy – introducing and mastering new services, including cellular transmission, internet technology, intelligent networks, and data communications; secondly – active cost reduction; and thirdly – our work with the Anti-Monopoly Ministry to arrive at economically justified tariffs for regulated communication services. In 2002 we managed, in general, to increase and standardize tariffs across the Urals regions for local traffic.

Income structure 2002
Proportion of highly profitable services increased



- Toll/international calls RUR6,618.9 mln
- Local calls RUR4,822.1 mln
- Other RUR1,947.5 mln
- Mobile RUR3,699.3 mln
- Internet and data transmitting RUR610.1 mln

Changes in income mix

Change in our income mix by business segment is ongoing. However it is important to note that there has been an absolute increase in revenues in all our main business areas. In accordance to the priority developments, the increases in mobile and new services income as a proportion of total income at about 26%, was an important feature last year, and is seen to grow further. In its turn, the proportion of traditional services income (fixed local and long distance calls) continue decreasing. It is also worth noting that there is now a steady trend emerging that marks a reduction in the proportion of income from long distance calls and a simultaneous increase in that from local fixed line services. This is because of a greater tariff growth for local calls compared to that for long distance calls, and good growth in the number of local fixed line subscribers. At the same time, during the year under report, income from installation payments in urban areas almost matched the related capital expenditure. Thus, during the year we have continued the policy of cross – subsidization reduction.

One of the most important issues for us is boosting revenues from new services, including cellular (cellular and internet services, intelligent network, radio access and data services). They are important for us for a number of reasons. First of all, they are not regulated by the antimonopoly bodies and we can determine our own tariff policy in the light of demand. Secondly, the profitability level of these services is considerably higher compared to local communications and more traditional services. We also believe that the future success of the company lies in developing these particular services.

2002 saw further reduction of income from the unprofitable services: wire radio, telegraph and rural telephone communications. It should be pointed out that we do not deliberately seek to reduce the level of service provided to remote rural areas. Indeed, development of new backbone networks can lead to the enhancement of these services in certain areas, and an increase in the number of subscribers. An important factor in the development of rural telephone communications is the proactive involvement of the local authorities in securing central budget finance for the enhanced facilities. We always appreciate such efforts and have examples illustrating the mutually beneficial results in a number of districts.

We also maintain the wire radio broadcasting service, recognising its social importance for remote areas, whilst at the same time working with local authorities to replace it by aerial broadcasting. It should be pointed out though, that wire radio broadcasting in large cities remains profitable. As far as telegraph services are concerned, the amount of the traditional traffic (sending and receipt of telegrams) is declining as they are replaced by the new technologies (data transfer networks, internet, fax, etc.).

Treasury policy

Last year, prior to the merger, we began to work on introducing a central treasury. As a result, a treasury function was in place on the first day of merger, and in the 4th quarter of 2002, it handled up to 35% of the company's funds. A list of authorized banks for cash management services for Uralsvyazinform districts and units was drawn up. The main banks for such services, operating under a uniform cross-company tariff structure, are Sberbank, Khanty-Mansy bank, Zapsibcombank, Pochtobank, and Sviazbank.

All borrowings are arranged and managed centrally, as is management of foreign exchange exposure. Funds flow is now divided equally between the centre and the districts on the daily basis, allowing the former to meet central liabilities, including investment program funding, and the latter to provide for current operating activities. Districts in the Regions are subject to a quarterly budget process and cash flow plan, involving sanction of individual cost items.

Finance Director's review

Capital structure and issue of securities

The most important event of the year was the re-arrangement of Uralsvyazinform's share capital to allow for the issuance of additional shares to be offered by way of conversion for the shares of the merging companies

On 10 July 2002 the Federal Commission on Securities Market (FCSM) approved formal arrangements for the issue of common and preference shares into which shares of the merging companies were converted on 30 September 2002. On 1 November 2002 a report on the result of the transaction was registered. As a result of consolidation shareholders equity now consists of 19.5% of privileged shares. Another result of consolidation is the appearance of Charter capital state principals. The largest state principal – Russian Federal Property Fund – owns 4.6% of the Charter capital (5.8% ordinary shares). Russian Federation government has decided to sell this set of shares in 2004. ZAO "Registrator-Svyaz" now acts as registrar for the company's shares.

The Company intends to enter into an agreement with the registrar in 2003 to set up transfer/agency offices at our Chelyabinsk, Tyumen, Khanty-Mansiisk and Salekhard branches. Since the end of 2002 transfer/agency offices have been operational in Perm, Ekaterinburg and Kurgan.

Appropriate arrangements were made regarding outstanding ADR programs. Level-1 ADR programs now operate for both common and preference shares of the enlarged company. At the end of 2002 ADRs represented 6.4% of the issued Charter capital of the Company. And its proportion in the Charter capital is expected to grow further.

On 5 August 2002 the FCSM approved the formalities for a 3-year RUR1 bln bond issue with a coupon value of 17.5%. Coupons are paid on a quarterly basis. The issue was led and managed by Renaissance Capital and Web-Invest. On 22 August 2002 the bond issue was distributed via MICEX and now trades on both MICEX and RTS. At year end the bonds were showing an average yield to redemption of 11%.

Dividend policy

All companies had their own dividend policy and history, and all paid dividends except in 1998 when, as the result of the financial crisis, the companies suffered losses.

Articles of Association of the company adopted by the general shareholders' meeting of 17 December 2002 provides for annual payment of a preference share dividend of the company in the amount of 10% of net profits, and for payment of a common share dividend in an amount recommended by the board of directors.

In line with our stated policy on improving corporate governance, the board of directors of the company adopted Regulations on the dividend policy of Uralsvyazinform at the beginning of 2003 that prescribe the main principles, strategy and conditions underpinning a progressive dividend policy for the company.

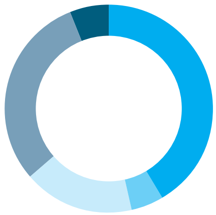
Receivables

Receivables increased by RUR416.5 mln, and net of provisions was at to RUR1,249.7 mln year on year. This increase reflects both volume and tariff increases for call services but has been accompanied by a reduction in the average settlement time (from 66 days to 54 days during 2002). At the same time the percentage of the receivables outstanding beyond 3 months has fallen from 15% at the beginning of the year to 12% at year end.

Comprehensive action was taken to achieve payment of overdue debt incurred by federal agencies. It resulted in payment of outstanding debt by organizations financed from local budgets and by some of the federal ministries and departments. One issue which is still unresolved is the financing of state-subsidised communications services to low income groups within the population.

During the year the cellular billing systems have been improved to allow prompt suspension of service where necessary in the event of overdue payment.

Charter capital as of 31.12.02



Svyazinvest	41.4%
State	5.0%
Individuals	16.9%
Institutional investors	30.3%
ADRs	6.4%

Company Credit Ratings

For some time now, the leading rating agencies have assigned international credit ratings to the company, Fitch since 1999, and Standard & Poor's since 2001. On 14th of May, 2003 Fitch improved our rating from B to B+ with a "Positive" forecast, and Standard & Poor's rating changed from B-/Stable to B/Stable on the 2nd of April, 2003.

In our opinion, these changes in the company's ratings properly reflect our current situation and the improvement in the company's creditworthiness.

Corporate governance rating

In 2002 Standard & Poor's gave the Company a corporate governance rating of 6.0. Although this is one of highest ratings among the Russian companies, the Company will continue its best effort to improve corporate transparency standards and accountability to shareholders.

Sergei Kuzyaev
Chief Financial Officer

Our personnel strategy is aimed at building a responsible, highly professional and united workforce to ensure customer satisfaction and to maintain our lead in the competitive business market

Group review
Employees

Employees
Staffing levels and qualifications
Following the merger the number of the employees at the beginning of 2003 was just over 36,000. A reduction in the workforce by around 1200 in 2002 was achieved through the streamlining of the organisational structure and associated redundancies, improvement in workplace design and maintenance, multi-skilling by employees, the expansion of service zones, and the introduction of innovative equipment and advanced technologies.

In 2003 the company will continue to develop labour standards for standardised job positions, implement a system for separate accounting of labour costs by functions, analyse workload along the operating chain and improve the employee motivation system.

Within the total workforce 18% percent are qualified engineers and 30% are qualified technicians. 45% of the employees are aged under 40, and 37% are aged between 40 to 50.

Human resources policy
The human resources policy of the company reflects the company's mission statement. The personnel strategy is aimed at building a highly professional, responsible and united workforce capable of ensuring the company's leading position in the competitive business market in which it operates and in delivering customer satisfaction.

Analysis of labour issues has been an important focus – including corporate citizenship attitudes, employee communications and interaction (both on the job and away from work), satisfaction surveys, the company's customs and traditions, and leadership issues.

Skills upgrading
A major focus of HR activities is skills upgrading. In 2002, over 23,000 employees – 63% of the workforce – received training to help them upgrade their skills. Of this number 9% were managers and 34% were specialists.

To help with training during the year, the company worked with Saint-Petersburg State University of Telecommunications, the Volga Academy of Telecommunications, the Siberian State University of Telecommunications and Computer Science, as well as qualified institutions offering educational and training activities.

All in-house training at the corporate training centres (in Perm, Yekaterinburg, Chelyabinsk, Khanty-Mansiysk) are approved programs. Training methods and facilities are constantly being improved.

A new target is for each specialist to attend a retraining/upgrading course in the company's time once every three year. Plans also include advanced technology courses for training experts for our future requirements. Training in workplace standards has been taking place involving employees from all levels from top management to the workshop floor. Team leaders and managers from operations units undergo training in leadership and team management.

All personnel are assessed during the recruitment procedures. There is a competitive element within the recruitment process, with the candidates undergoing personality tests and being screened for skills.

During their probationary period supervisors hold regular discussions with new employees and agree specific action to help them improve their performance.

Trade skills contests held amongst the subscriber service and billing operators, field technicians, and similar posts are aimed at assessing their skills and boosting morale.

The winners of the provincial contests have gone on to take part in the Russian central region contest.

Corporate culture
Key points of our culture are:
- Uralsvyazinform – is a united team of specialists; the rights of each indiviual are respected and initiative encouraged
- Uralsvyazinform complies fully with current law and regulation. The company will cooperate fully in the event of any apparent breach
- Uralsvyazinform seeks to build long-term relationships with its clients and to deliver high quality services. Our clients' trust is important to us

Working with the trades unions
Interaction with the trade unions under the corporate social partnership revolves around industry wage rates and labour agreements. The objective is to maintain a coordinated social and labour policy based on mutual respect for the interests of all parties.

Social reporting

Uralsvyazinform is committed to socially responsible policies and behaviour, especially with regard to the welfare and comfortable and safe working conditions of its employees.

Our human resources policies and procedures place great emphasis on the working environment as we recognise that good working conditions have a great impact on workforce development, recruitment, and turnover.

Thus the area receiving greatest attention is the upgrading of operations sites to improve the work and rest facilities for employees. Perm and Khanty-Mansiisk branches operate sports and fitness centres, and elsewhere the company rents gyms and swimming pools for recreation and fitness activities. Regular competitions are held amongst employees involving eight various kinds of sporting activity.

The company operates a hostel for single and married employees in Perm, and in Ust-Kachka and Klyuchi, where the local resorts provide recreation and health care facilities, plus kindergartens in Perm and Yekaterinburg.

Medical examinations of employees working in possible hazardous environments are conducted on a regular basis as a preventative measure. All branches have medical aid facilities and employees regularly receive vouchers to enable them to attend health resorts. Voluntary medical insurance is available for all employees.

There is constant liaison with the non-state pension funds contracted to provide additional pensions to employees who have reached retirement age or who have had had to retire early.

The company pays particular attention to World War II veterans, industry veterans and retired employees. The company provides material assistance to them on Victory Day, Senior Citizens' Day and on other occasions. The Board has formally approved provision of special pensions from Uralsvyazinform to be granted to employees with industry awards for their personal input to the development of the telecommunications industry in the region. 20 distinguished industry veterans have already received an extra pension to be paid through a non-state pension fund. The divisions also have formal arrangement in place to honour employees with distinguished service records in the industry.

Charity

	Total charity contributions	Percentage of total amount of charity (thousand rubles)
Public welfare organisations	442.2	11.4%
Culture and sports organisations	1504.2	39%
Education, health care organisations	408.03	10.5%
Religious organisations	72.0	1.9%
Telecommunications enterprises	817.6	21.2%
Defense organisations	355.9	9.2%
Private individuals	262.3	6.8%
Total		**3,862.5**

The total amount of charity contributions in 2002 was 3.9 million rubles.

Culture and sports institutes have received the greatest attention. This included support for professional and amateur artistic organisations and sponsorship of a number of sports events.

Vulnerable individuals and welfare organisations that support them have received significant help.

Uralsvyazinform has continued its support for the training and educational activities of Uralskoe Podvorye, the special technical school.

Financial help has also been provided to the colleagues of South Telecommunications Company to help in the aftermath of a natural disaster.

Corporate governance

The Company devotes significant effort to improving its information transparency and corporate governance. Established in 2002, the Corporate Governance Department of the merged company is responsible for the Corporate Governance Policy. The Company also complies with most of requirements of the Corporate Governance Code recommended by the Federal Commission of Securities of the Russian Federation.

Provisions exist to enable shareholders to exercise their rights as holders and to provide equality of treatment to holders of the same class of shares, as illustrated below:
- The Company's Articles of Association and Regulations of Shareholders' Meetings prescribe the main requirements for the convening and holding of shareholders' meetings. They also cover the exercise by shareholders of their rights as holders.
- The Company must give shareholders 30 days' notice of any meeting. Notices and voting papers are posted directly to shareholders by registered mail. The notices are also published in two local newspapers, pan-Russia mass media and on the corporate web site.
- The register of shareholders of the Company is maintained by an independent registrar.
- The common share dividend is paid in the financial year in which the AGM falls, the preference share dividend within two months of the AGM.
- In accordance with the Articles of Association, shareholders owning 5 per cent and more of the Authorized Capital are entitled to demand the convening of a meeting of the Board of Directors to resolve to call a meeting of shareholders.
- Under the Articles of Association, ownership of shares in the Company may be transferred without restriction.
- Shareholders are entitled to vote by post, or to appoint proxies to attend a meeting; all votes cast in person or in absentia, rank equally. The principle "1 share – 1 vote" is observed in respect of common shares.

Performance by the Board of Directors of the strategic management of the Company's business and control of the executive management's activities:
The Board of Directors has to approve the corporate strategy, annual business plan and budget, and the annual and quarterly reports to shareholders.
- The roles of the Director General and Chairman of the Board of Directors are separate appointments and cannot be carried out by the same individual.
- At the time of the reorganisation Board membership was increased to 11. The Board of Directors includes 3 independent directors.
- The Board of Directors discusses all major transactions and any other interested party transactions. The list of the qualifying transactions falling for discussion by the Board is more extensive than that required under Russian Federation legislation.
- The Board of Directors determines and approves the terms and conditions of the Director General's employment contract, and those of the local and local Directors. It also determines the remuneration payable to members of the executive management.
- The remuneration system for managers is performance-driven.
- The Company has established Committees within the Board of Directors.

Disclosure of information by the company:
- Timely disclosure of information is provided for by legislation to which the Company adheres.
- The Company discloses all key information on its web site, both in Russian and English, with regular updates.
- The financial statements of the Company, prepared under both Russian Accounting Standards (RAS) and IAS, are published in full, in Russian and English, on the corporate web site and are also sent to shareholders and investors at their request.
- High standards of financial transparency and information disclosure have been confirmed by the independent rating agency, Standard & Poor's.
- Dealings in the Company's shares by directors and members of the executive management are fully disclosed.
- Notices of forthcoming shareholders' meetings, and copies of all materials required to be sent to shareholders under Russian Federation legislation, are published on the company's web site.
- Any significant movements in shareholdings are disclosed in the Company's quarterly reports. Quarterly reports also cover interested/related party transactions.
- Any significant movement in the shareholding of Open Joint Stock Company "Svyazinvest" is disclosed in the Company's quarterly report.
- The Company has developed an Investor Relations Program approved by Board of Directors.

Control of the Company's finances and trading activities:
- The Company has an Audit Committee elected at the AGM, and an Internal Audit Department to ensure effective internal controls of the Company's operations
- The Company has retained an independent auditor – an international firm, Ernst & Young – which produces financial reports in accordance with RAS and IAS.

Board of directors

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1 Belov Vadim Evgenievich
Deputy General Director
of OAO Svyazinvest

2 Rybakin Vladimir Ilyich
General Director
of OAO Uralsvyazinform

3 Bilibin Yuri Aleksandrovich
Assistant to General Director
of OAO Svyazinvest

4 Kozin Vladimir Vladimirovich
Deputy Director – Head of Section
at Corporate Funding and Direct
Investment Department
of OAO Svyazinvest

5 Grigorieva Alla Borisovna
Deputy Director – Head of Section
at Corporate Governance
Department of OAO Svyazinvest

6 Kim Aleksandr Vladimirovich
President of non-commercial
organisation "Charity Fund
Nashi Talanty" ("Our Talents")

7 Levkovski Dmitry Vladimirovich
Vice-President of NCH Advisors, Inc.

8 Adzhalov Vladimir Isfandeyarovich
Advisor to General Director
of Rostelecom

9 Yurpalov Sergei Yurievich
Head of Economic Department
at Russian President Authorized
Representative's Office in Urals
Federal District

10 Zholobov Vladimir Semyonovich
Lead Specialist of Corporate
Governance Department
of OAO Uralsvyazinform

Vladimir Aleksandrovich Zhuk
Sadly I have to report that Vladimir A. Zhuk passed away on 1st May this year. He had been on our board since company foundation in 1994. He also chaired Regional Trade Union of Communication Employees. He contributed a great deal to the development of our company and we shall miss his wise counsel. Our thoughts and prayers are with his wife and family, to whom we extend our condolences.


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Independent Auditors' report
To the Shareholders and Board of Directors of OAO "Uralsvyazinform"

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

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

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

4.
As described in note 22, the Company has not determined and presented its obligations existing under defined benefits plans in accordance with IAS 19, "Employee Benefits". We were not able to quantify the adjustments, if any, to the financial statements.

5.
As described in note 8, the Company's accounting records relating to fixed assets are not designed to support their presentation in accordance with IAS 16, "Property, Plant and Equipment", IAS 29, "Financial Reporting in Hyperinflationary Economies" and IAS 36, "Impairment of Assets". As such, certain estimates were made by management to present fixed assets in the accompanying financial statements. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the adjustments, if any, which might have been determined to be necessary had additional evidence been available to better analyze the assumptions and estimates made by management.

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

7.
In our opinion, except for the effects on the financial statements of such adjustments, if any, from the matters referred to in paragraphs 3, 4 and 5 above, the financial statements referred to above present fairly, in all material respects, the financial position of OAO "Uralsvyazinform" as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

8.
As described in note 1, the Company was the subject of a reorganization that was approved by the shareholders on September 27, 2001. The Company has accounted for the merger based on the principles of uniting of interests as described in IAS 22, "Business Combinations". In applying this method, the Company has reflected amounts in the financial statements as if the entities had been combined from January 1, 2002, the earliest period presented.

August 8, 2003 (except for the matter discussed in note 26, Subsequent Events – Expiration of offer on bonds, as to which the date is August 18, 2003).

Consolidated financial statements
As of December 31 2002

Consolidated financial statements

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Consolidated balance sheet
As of December 31 2002
In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

	Note	2002
Assets		
Non-Current Assets		
Property, plant and equipment, net	8	**26,334,594**
Intangible assets, net	9	**175,043**
Goodwill, net	9,10	**161,500**
Available-for-sale financial assets	12	**161,865**
Investment in associates	11	**2,650**
Advances to suppliers of equipment		**427,635**
Total non-current assets		**27,263,287**
Current Assets		
Inventories, net	13	**790,139**
Trade accounts receivable, net	14	**1,249,736**
Other current assets, net	15	**2,439,601**
Marketable securities		**11,111**
Cash and cash equivalents	16	**495,917**
Total current assets		**4,986,504**
Total Assets		**32,249,791**

	Note	2002
Shareholders' Equity and Liabilities		
Shareholders' Equity		
Preference shares	17	**940,313**
Ordinary shares	17	**3,875,854**
Treasury shares	17	**(27,438)**
Inflation impact on share capital		**3,933,136**
Retained earnings and other reserves		**8,984,844**
Total shareholders' equity		**17,706,709**
Commitments and Contingencies	22	**–**
Minority Interest		**182,084**
Non-Current Liabilities		
Long-term borrowings	18	**3,112,755**
Obligations under finance leases	19	**250,884**
Contributions of equipment		**97,740**
Deferred tax liability	5	**2,272,729**
Other		**152,148**
Total non-current liabilities		**5,886,256**
Current Liabilities		
Accounts payable and accrued expenses	20	**2,836,278**
Amount owing to Rostelecom for interconnection fees	23	**152,496**
Taxes and social security payable	21	**659,936**
Dividends payable		**26,149**
Short-term borrowings	18	**2,373,158**
Short-term portion of long-term borrowings	18	**1,645,962**
Short-term portion of obligations under finance leases	19	**780,763**
Total current liabilities		**8,474,742**
Total Liabilities and Shareholders' Equity		**32,249,791**

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

Consolidated statement of operations
For the year ended December 31 2002
In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

	Note	2002
Revenues	4	**17,697,863**
Operating Expenses		
Wages, salaries, other benefits and payroll taxes		**(5,338,822)**
Depreciation and amortization		**(2,400,768)**
Materials, repairs, maintenance and utilities		**(1,453,050)**
Taxes other than on income		**(537,387)**
Interconnection charges		**(2,321,517)**
Bad debt expense		**(85,905)**
Loss on disposal of property, plant and equipment		**(116,315)**
Other operating expenses	4	**(2,545,955)**
Total operating expenses		**(14,799,719)**
Income from Operations		**2,898,144**
Income from associates		**4,840**
Interest expense and similar items, net	4	**(691,776)**
Loss on investments, net		**(19,610)**
Other income and (expenses), net		**(373,328)**
Foreign exchange loss		**(389,201)**
Net monetary gain		**602,538**
Income before Taxation and Minority Interest		**2,031,607**
Income Tax Expense	5	**(794,795)**
Net Income before Minority Interest		**1,236,812**
Minority Interest		**(76,259)**
Net Income		**1,160,553**
Preference Dividends	7	**(55,737)**
Net Income Available to Ordinary Shareholders	6	**1,104,816**
Basic and diluted earnings per share, rubles	6	**0.034**

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

Consolidated statement of cash flows
For the year ended December 31 2002
In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

	2002
Cash flows from operating activities	
Income before taxation and minority interest	**2,031,607**
Adjustments for	
Depreciation and amortization	**2,400,768**
Loss on disposal of property, plant and equipment	**116,315**
Long-term investments impairment	**87,596**
Income from associates	**(4,840)**
Interest expense and similar items, net	**691,776**
Net monetary gain	**(602,538)**
Foreign exchange loss	**389,201**
Bad debt expense	**85,905**
	5,195,790
Increase in inventory	**(249,997)**
Increase in accounts receivable	**(416,545)**
Increase in other current assets	**(1,366,531)**
Increase in accounts payable and accrued liabilities	**1,161,687**
Loss on investments	**19,610**
Income taxes paid	**(687,664)**
Interest paid	**(643,968)**
Cash flows provided by operating activities	**3,012,382**
Cash flows from investing activities	
Capital investments	**(4,009,979)**
Purchases of financial investments	**(113,411)**
Acquisitions, net of cash acquired of 12,779	**(478,847)**
Interest received	**36,740**
Cash flows used in investing activities	**(4,565,497)**
Cash flows from financing activities	
Proceeds from bonds	**1,000,000**
Proceeds from loans and borrowings	**3,772,472**
Repayment of loans and borrowings	**(3,017,442)**
Dividends paid	**(145,610)**
Cash flows provided by financing activities	**1,609,420**
Monetary effects on cash and cash equivalents	**(75,892)**
Decrease in cash and cash equivalents	**(19,587)**
Cash and cash equivalents at the beginning of the year	**515,504**
Cash and cash equivalents at the end of the year	**495,917**
Non-monetary transactions:	
Non-cash additions to property, plant and equipment	2,088,683

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

Consolidated statement of operations
For the year ended December 31 2002
In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

	Note	Share capital	(Nominal)	Treasury shares	Inflation impact on share capital	Retained Earnings and Other Reserves	Total Equity
		Preference shares	**Ordinary shares**				
At January 1, 2002	1	**940,313**	**3,875,854**	**(27,438)**	**3,933,136**	**7,965,870**	**16,687,735**
Net income for the year		–	–	–	–	**1,160,553**	**1,160,553**
Dividends	7	–	–	–	–	**(141,579)**	**(141,579)**
At December 31, 2002		**940,313**	**3,875,854**	**(27,438)**	**3,933,136**	**8,984,844**	**17,706,709**

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

Notes to Consolidated Financial Statements
December 31 2002
In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

1. Corporate Information

Authorization of Accounts

The consolidated financial statements of OAO Uralsvyazinform and its subsidiaries (the “Company”) for the year ended December 31, 2002 were authorized for issue by its appointed General Director and Chief Accountant on August 8, 2003.

The Company

The Company completed its last charter registration on January 15, 2003. This amendment was due to the process of reorganization into OAO Uralsvyazinform. The Company is an open joint stock company incorporated in Russia.

The Company was privatized in 1994 and its principal activity is providing local and long-distance telephone services (including domestic and international telecommunication services, cellular services of GSM, NMT, and AMPS standards, and paging services). Other types of activity of the Company include tele-radio broadcasting and data transmission in the Perm region.

Open joint-stock company Svyazinvest, a federal holding company majority-owned by the Russian Federation, owns 51% of the Company’s common stock. Domestic and international long-distance telecommunication services are provided by OAO “Rostelecom”, a subsidiary of OAO “Svyazinvest”.

The average number of employees in the Company in 2002 was approximately 37,703 persons (after giving retroactive effect of the reorganization described below).

The registered office of the Company is in the city of Perm in the Russian Federation, 68 Lenin St.

Notes to Consolidated Financial Statements
December 31 2002
In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

1. Corporate Information (continued)

2002 Reorganization

In 2001 the Company's management started the Company's reorganization. After obtaining shareholder approval to merge the regional enterprises of OAO "Svyazinvest", wherein 23,554,844,291 ordinary and 7,835,941,286 preference shares of the Company were exchanged for 100% of the ordinary and preference shares of the merged enterprises as follows:

	Shares issued by the Company		
Regional Enterprise	**Ordinary**	**Preference**	**Exchange Ratio**
OAO "Elektrosvyaz" of Kurgan region	978,871,953	326,641,525	133.30259734
OAO "Svyazinform" of Chelyabinsk region	6,540,810,860	2,175,262,321	1,316.73752298
OAO "Uraltelecom" of Sverdlovsk region	6,180,053,956	2,054,528,433	604.55185921
OAO "Yamalelektrosvyaz"	2,487,523,682	829,142,081	220.75756257
OAO "Tumentelecom"	4,557,209,787	1,515,692,862	169.26463472
OAO "Khantymansiyskokrtelecom"	2,810,374,053	934,674,064	161.22295530
Total	**23,554,844,291**	**7,835,941,286**	

The merger was completed and effective on October 1, 2002. Transaction costs related to the merger were approximately 167 million rubles and expensed.

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

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

	Total assets	**Total liabilities**	**Revenue**	**Pre-tax Income (loss)**
The Company	7,602,909	(6,315,669)	3,602,693	602,548
OAO "Elektrosvyaz" of Kurgan region	1,039,113	(189,855)	510,072	(23,021)
OAO "Svyazinform" of Chelyabinsk region	8,406,344	(2,455,003)	3,546,834	312,167
OAO "Uraltelecom" of Sverdlovsk region	5,648,407	(1,602,569)	3,324,220	202,673
OAO "Yamalelektrosvyaz"	982,178	(499,619)	1,048,472	(11,934)
OAO "Tumentelecom"	3,707,557	(1,400,278)	1,893,112	243,875
OAO "Khantymansiyskokrtelecom"	4,957,099	(1,991,821)	5,045,116	705,299
Eliminations and other adjustments	(93,816)	93,816	(1,272,656)	0
Total	**32,249,791**	**(14,360,998)**	**17,697,863**	**2,031,607**

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

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

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

Liquidity and Financial Resources
As of December 31, 2002, the Company's current liabilities exceeded its current assets by 3,488,238. As a result, significant uncertainties exist as to the Company's liquidity and future capital resources.

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

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

Through 2003, the Company anticipates funding from a) existing cash reserves, b) cash generated from operations, c) placement of ruble bonds in the Russian market, d) other financing from domestic lending institutions, and e) household deposits in a subsidiary bank. Management also expects to continue to be able to delay payment for certain operating costs to manage its working capital requirements if necessary.

The accompanying financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or any other adjustments that might result should the Company either be unable to continue as a going concern or if the Company was to dispose of assets outside the normal course of its operating plan.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

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

Financial statement presentation herein is limited to the balance sheet at December 31, 2002 and the related statements of operations, cash flows and shareholders' equity for the year ended December 31, 2002. A comparative balance sheet at December 31, 2001, along with separate comparative statements of operations, cash flows and shareholders' equity for the year ended December 31, 2001, and the related note disclosures for such comparative financial statements, as required by International Accounting Standard ("IAS") No. 1, Presentation of Financial Statements, have not been presented. Following the reorganization described in note 1, the Company believes that presentation of comparative financial information is not practicable, including the determination of retained earnings as of January 1, 2002.

Management Estimates

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

Basis of Consolidation

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

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred from the Company.

Significant intercompany balances and transactions have been eliminated.

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

Investments in Associates

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

Accounting for the Effects of Inflation

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Accounting for the Effects of Inflation (continued)

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

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

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

Foreign Currency Translation

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

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

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

Buildings	50 years
Constructions	20 years
Switches	15 years
Other telecommunication equipment	15 years
Computers	5 years
Vehicles	5 years
Other	5 years

Construction in progress is recorded as the total of actual expenses incurred by the Company from the beginning of construction to the reporting date, adjusted for the effect of inflation from the date when such expenses occur to the reporting date in accordance with IAS 29. Construction in progress is depreciated once the property, plant and equipment are put into operation.

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment Contributions

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

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

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

Intangible Assets

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

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

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is amortized on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated depreciation and any impairment in value.

Research and Development Costs

Research and development costs are expensed as incurred.

Investments

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

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

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

Inventories

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

Accounts Receivable

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

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in the Company's bank accounts, as well as cash deposits and short-term investments with original maturity dates of 3 months or less as of December 31, 2002.

Treasury Shares

Treasury shares, recorded at cost, are presented in the balance sheet as a deduction from equity.

Interest-Bearing Loans and Borrowings

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

Non Interest-Bearing Loans and Borrowings

Non interest-bearing loans and borrowings are carried at their fair market value estimated by discounting future payments to their present value. Weighted average interest rates are used as an approximation to market interest rates.

Provisions

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

2. Summary of Significant Accounting Policies (continued)

Pensions and Other Post-employment Benefits

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

The Company's contributions relating to the UST are expensed in the year to which they relate.

Under collective bargaining agreements, the Company also provides post-employment retirement benefits. The majority of the Company's employees are eligible to participate under such defined benefit plans based upon a number of factors, including years of service, age and compensation. The Company has not complied with IAS 19, "Employee Benefits". Specifically, the Company has not made an actuarial determination of the present value of its benefit obligation under these arrangements to allow it to record its obligation and make the required disclosures under IAS 19 as of December 31, 2002.

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

Leases

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

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

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

Revenue
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recorded on accrual basis, net of value added tax.

The Company categorizes its revenue sources in eleven major categories:
1. Monthly subscription fees for local services;
2. Long distance services;
3. Network services;
4. Installation fees;
5. Internet services;
6. Radio and TV broadcasting;
7. Rent of premises;
8. Telegraph services;
9. Wireless services;
10. Other telecommunication services;
11. Other revenues.

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Revenue (continued)

Telegraph services

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

Wireless services

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

Other telecommunication services

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

Other revenues

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

Income Tax

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

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

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

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

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

Value-added Tax

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

3. Segment Information

The Company provides telecommunication (wireline and wireless) services, banking services, transport and construction services. Management considers that the Company operates in one geographical segment. Banking, transport and construction services are not material (less than 10% of total operations) for the Company.

During 2002 information about business segments was as follows:

	Wireline communications services	Wireless communications services	Other operations	Eliminations	Consolidated
Revenue					
External sales	13,531,016	3,699,270	467,577	–	17,697,863
Inter-segment sales	1,036,700	–	8,690	(1,045,390)	–
Total revenue	**14,567,716**	**3,699,270**	**476,267**	**(1,045,390)**	**17,697,863**
Result					
Segment result	2,290,160	1,052,265	32,302	–	3,374,727
Unallocated corporate expenses	–	–	–	–	(476,583)
Operating profit	–	–	–	–	2,898,144
Income from associates	–	–	–	–	4,840
Interest expense and similar items	–	–	–	–	(691,776)
Loss on investments	–	–	–	–	(19,610)
Other income (expenses) (net)	–	–	–	–	(373,328)
Foreign exchange loss	–	–	–	–	(389,201)
Monetary gain	–	–	–	–	602,538
Income tax expense	–	–	–	–	(794,795)
Minority interest in subsidiaries	–	–	–	–	(76,259)
Net income	**–**	**–**	**–**	**–**	**1,160,553**
Other information					
Segment assets	24,487,943	2,458,516	512,420	–	27,458,879
Unallocated corporate assets	–	–	–	–	4,790,912
Consolidated total assets	**–**	**–**	**–**	**–**	**32,249,791**
Segment liabilities	11,368,502	838,456	436,335		12,643,293
Unallocated corporate liabilities					1,717,705
Consolidated total liabilities					**14,360,998**
Capital expenditure	5,398,427	661,036	39,199		6,098,662
Depreciation and Amortization	2,258,593	129,970	12,205		2,400,768

In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

4. Revenues and Expenses

Revenues

	2002
Domestic long-distance services	5,314,278
Monthly subscription fees for local services	3,238,422
Wireless services	3,699,270
International long-distance services	1,304,635
Installation fees	971,386
Domestic timed calls	612,258
Networks services	442,787
Radio and TV broadcasting	380,477
Telegraph services	213,917
Data transmission services	168,014
Other telecommunication services	100,179
Other revenues	1,252,240
Total	**17,697,863**

Wireless revenues are derived from the wireless segment and mainly include usage charges, subscription fees, value added services, and roaming fees charged to other operators for guest roamers utilizing Company's network.

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

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

	2002
Residential customers	8,350,962
Corporate customers	8,098,277
Government customers	1,248,624
Total	**17,697,863**

Other Operating Expenses	2002
General and administrative	903,238
Cost of goods sold	443,670
Advertizing	182,456
Rent (excluding channel rent)	166,895
Business trips	50,660
Other	799,036
Total	**2,545,955**

General and Administrative Expenses	2002
Payments to Gossvyaznadzor	82,778
Security	189,895
Consulting	45,613
Post	24,642
Transport	23,351
Other G&A	536,959
Total	**903,238**

Interest expense and similar items	2002
Interest income	(36,740)
Interest expense	733,222
Less: Capitalized interest	(4,706)
Total	**691,776**

In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

5. Income Tax

Income Tax Expense	2002
Current tax charge	535,357
Deferred tax charge	259,438
Income tax charge	**794,795**

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

	2002
Profit from operating activities before income tax	**2,031,607**
At statutory income tax rate of 24%	487,586
Effect of:	
Expenses not deductible for tax purposes	114,550
Currency gains and losses	14,916
Permanent elements of monetary gain	526,150
Inflation effect on deferred tax balance at beginning of year	(63,477)
Other reconciling items	(284,930)
At effective income tax rate of 39%	**794,795**

Deferred Income Tax	Balance Sheet 2002
Deferred income tax assets:	
Accounts payable	3,480
Other	32,995
Gross deferred income tax assets	**36,475**
Deferred income tax liabilities:	
Property, plant and equipment	(2,091,298)
Inventories	(9,610)
Accounts receivable	(31,440)
Investment valuation difference	(18,043)
Other	(158,813)
Gross deferred income tax liabilities	**(2,309,204)**
Net deferred income tax liability	**(2,272,729)**

6. Earnings per Share

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

	2002
Net income attributable to ordinary shareholders (for basic and diluted EPS)	1,104,816
Weighted average number of ordinary shares for basic and diluted EPS	32,298,782,020
Earnings per ordinary share, rubles (basic and diluted)	**0.034**

The Company has no potential dilutive shares outstanding.

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

7. Dividends Paid and Proposed

Declared in the year (for the year 2001)	
Dividends on ordinary shares	85,842
Dividends on preference shares	55,737
Total	**141,579**
Approved at annual shareholder meeting for 2002 (see note 26, Subsequent Events)	
Dividends on ordinary shares	71,307
Dividends on preference shares	127,257
Total	**198,564**

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

In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

8. Property, Plant and Equipment, net

	Buildings and constructions	Switches and transmission devices	Assets under construction & equipment awaiting installation	Land, Machines & Other	Total
Cost					
As of January 1, 2002	25,510,548	25,844,316	1,403,810	5,664,651	58,423,325
Additions	–	–	6,098,662	–	6,098,662
Disposals	(341,460)	(837,180)	(46,177)	(237,140)	(1,461,957)
Transfers	1,168,485	3,155,719	(5,134,622)	810,418	–
As of December 31, 2002	**26,337,573**	**28,162,855**	**2,321,673**	**6,237,929**	**63,060,030**
Impairment					
As of January 1, 2002	(967,976)	(982,167)	(472,292)	(151,023)	(2,573,458)
Charge for the year	–	–	–	–	–
Recoveries / reversals	86,243	2,397	3,183	–	91,823
As of December 31, 2002	**(881,733)**	**(979,770)**	**(469,109)**	**(151,023)**	**(2,481,635)**
Accumulated Depreciation					
As of January 1, 2002	(14,146,407)	(15,014,353)	–	(3,891,642)	(33,052,402)
Charge for the year	(634,757)	(1,216,176)	–	(510,084)	(2,361,017)
Depreciation on disposals	274,643	733,739	–	161,236	1,169,618
As of December 31, 2002	**(14,506,521)**	**(15,496,790)**	**–**	**(4,240,490)**	**(34,243,801)**
Net book value as of December 31, 2002	**10,949,319**	**11,686,295**	**1,852,564**	**1,846,416**	**26,334,594**

The carrying value of plant and equipment held under finance leases at December 31, 2002 is 442,427. Leased assets are pledged as security for the related finance lease liabilities (See note 19).

The total interest costs capitalized during 2002 amounted to 4,706.

Buildings and equipment with a book value of 4,166,220 as of December 31, 2002 secure bank loans (See Note 18).

As of December 31, 2002 vendor financing is secured by the equipment amounting to 645,220 until the last installment is paid (see Note 18).

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

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

9. Intangible Assets and Goodwill, net

	Licences	Software and other	Total
Cost			
At January 1, 2002	225	269,092	269,317
Additions	1,043	34,732	35,775
Disposals	(51)	(72,532)	(72,583)
At December 31, 2002	**1,217**	**231,292**	**232,509**
Accumulated amortization			
At January 1, 2002	(97)	(49,641)	(49,738)
Charge for the year	(142)	(26,508)	(26,650)
Disposals	-	18,922	18,922
At December 31, 2002	**(239)**	**(57,227)**	**(57,466)**
Net book value at December 31, 2002	**978**	**174,065**	**175,043**

Licenses and software are being amortized evenly over their useful lives determined based on terms of the license or the license agreement for software. Useful lives of other intangible assets are 5 years.

Goodwill of 174,595 arising on the 2002 acquisition of ZAO “Radiotelefon-G and ZAO “Mobilniy servis” (See note 10) is being amortized evenly over the directors’ estimate of its useful economic life of 10 years. Amortization expense for the year ended December 31, 2002 totaled 13,095.

In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

10. Investments in Subsidiaries

The consolidated financial statements include the financial statements of OAO "URALSVYAZINFORM" and the significant subsidiaries listed in the following table:

Subsidiary	Main activity	Voting shares 2002
OOO "Perminform"	Data networks	100%
OOO "Uralinfrom TV"	Broadcasting	100%
ZAO "Infinvest"	Maintenance of telecom equipment	100%
ZAO "Svyazinformkomplekt"	Trading	100%
OOO "TyumentelecomInvest"	Financial markets	100%
ZAO "Center vnedreniaya spetsializirovannih system"	Systems development	100%
OOO "Yuzhno-Uralskyi sotovyi telefon"	Wireless communications	100%
ZAO "Radiotelefon-G"	Wireless communications	100%
ZAO "Mobilniy Servis"	Wireless communications	100%
ZAO "Ermak RMS"	Wireless communications	90%
Pension Fund «Svyazist»	Pension plans	63%
ZAO "AKIB Pochtabank"	Banking	63%
ZAO "VSNET"	Internet	52%
OAO "Uralvestkom"	Wireless communications	51%
ZAO "Tyumenruscom"	Wireless communications	51%

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

Acquisition of ZAO "Radiotelefon-G" and ZAO "Mobilniy Servis"

On April 18, 2002, the Company acquired 100% of ZAO "Radiotelefon-G" and ZAO "Mobilniy Servis" for US$13 million (approximately 441,978) in cash. These acquisitions increased the Company's ownership in Limited Company "Yuzhno-Uralskiy Sotoviy Telefon" from 45% to 83%. The Company began to consolidate "Yuzhno-Uralskiy Sotoviy Telefon" from April, 2002.
As of December 31, 2002, the Company owns 100% of Limited Company "Yuzhno-Uralskiy Sotoviy Telefon", after acquiring the remaining 17% of shares for 49,649.

The fair value of the identifiable assets and liabilities of "Yuzhno-Uralskiy Sotoviy Telefon" acquired are:

Assets:	
Non-current assets	527,104
Current assets	183,120
Goodwill	174,595
Total Assets	**884,819**
Liabilities:	
Trade payables	(95,140)
Deferred tax liability	(61,932)
Net Assets	727,747
Less: previous carrying value of the Company's equity method investment in ZAO "Yuzhno-Uralskiy Sotoviy Telefon"	(236,120)
Total purchase consideration and acquisition costs	**491,627**

This acquisition was accounted for under the purchase method of accounting.

11. Investments in Associates

Associate	Main activity	Percentage of ownership	As of December 31, 2002
ZAO Teleross-Ekaterinburg	Communication	50%	2,622
ZAO Teleross--Tyumen	Communication	50%	474
ZAO “Ural-Teleservice”	IT services	25%	1106
Other			601
Less impairment			(2,153)
Total net investments in associates			**2,650**

12. Available-for-Sale Financial Assets

	Percentage of ownership	2002 Amount
Loans issued by Pochtobank		108,231
Svyazbank	8%	22,771
Other		55,603
Provision for impairment		(24,740)
Total		**161,865**

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

13. Inventories

	2002
Cable, materials and spare parts for telecommunication equipment	632,685
Finished goods and goods for sale	136,394
Other inventory	24,490
Provision for obsolescence	(3,430)
Total	**790,139**

In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

14. Trade Accounts Receivable, net

Accounts receivable at December 31, 2002 comprised the following:

	2002
Trade receivables – telecommunication services	1,594,198
Trade receivables – other	7,548
Less allowance for doubtful accounts	(352,010)
Total	**1,249,736**

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

	2002
Residential customers	828,118
Corporate customers	549,380
Government customers	216,700
Total	**1,594,198**

The Company invoices its governmental and corporate customers on a monthly basis. For residential customers, the Company sends monthly payment requests and substantially relies upon these customers to remit payments based on the received payment requests. All customer payments are based upon tariffs, denominated in rubles, in effect at the time of calls made. In limited circumstances, the Company has billed and collected penalties associated with delays in payment and has been able to obtain certain payments through the Arbitrage Court. In order to further reduce a portion of the risk associated with customer nonpayments, the Company has in certain circumstances negotiated arrangements wherein the Company has accepted payment in goods and services, which are utilized in carrying out its non-core business.

15. Other current assets, net

Other current assets at December 31, 2002 comprised the following:

	2002
VAT	1,061,754
Prepayments and advances	440,473
Other tax prepaid	279,374
Settlements with personnel	89,792
Other receivables	610,535
Less Provision	(42,327)
Total	**2,439,601**

16. Cash and Cash Equivalents

	2002
Cash at bank and in hand	408,468
Short-term bank deposits	54,688
Other	32,761
Total	**495,917**

The fair value of cash and cash equivalents equals its book value.

17. Share Capital

		2002
Share capital:	**Shares**	**Share capital**
Preference shares, 0.12 rubles par value		
Shares issued and outstanding as of December 31, 2002	7,835,941,286	940,313
Shares authorized, not issued	7,164,058,714	
Less: treasury shares	10,407,444	(1,249)
Ordinary shares, 0.12 rubles par value		
Shares issued and outstanding as of December 31, 2002	32,298,782,020	3,875,854
Shares authorized, not issued	11,445,155,709	
Less: treasury shares	218,239,360	(26,189)
Total share capital		**4,788,729**

In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

17. Share Capital (continued)

The share capital account represents the authorized capital of the Company as stated in the charter documents. The Company had 32,298,782,020 ordinary shares and 7,835,941,286 preference shares type A issued as of December 31, 2002. All shares have a par value of 0.12 rubles. All shares are fully paid.

The state registration of the charter documents was completed on January 15, 2003. In accordance with IAS 10, Events After the Balance Sheet Date, such changes of the charter capital were recognized as of December 31, 2002 in the accompanying financial statements.

Of the capital shares issued as of December 31, 2002, 80% was attributable to ordinary shares and 20% attributable to preference shares, type A. The ordinary shareholders are allowed one vote per share. Preference shares type A are non-voting. All ordinary shares and preference shares type A are eligible for distribution of earnings available in accordance with Russian statutory accounting regulations. Preference shares type A are entitled to a minimum annual dividend in the amount equal to 10% of statutory net income available for dividends. Dividends on preference shares type A may not be less than the dividends on ordinary shares. Shareholders of preference shares type A have a preference right to recover the par value of preference shares in liquidation.

Treasury shares are held by Tyumentelecominvest, a subsidiary of the Company.

In June 1997 the Company signed a Deposit agreement with The Bank of New York as a Depositary and Owners and Holders of American Depositary Receipts. At the same time, the Securities and Exchange Commission (SEC) registered a Level 1 ADR program for ordinary shares. In August 2002 the company changed the Depositary by signing new Deposit agreement with JP Morgan Chase Bank as the successor Depositary.

In September 2002, the SEC registered the Level 1 ADR program for preference shares on the basis of a Depositary agreement signed between the Company, JP Morgan Chase Bank as a Depository and Owners and Holders of American Depositary Receipts. Each ADR is equal to 200 ordinary and preference shares correspondingly. At the end of 2002 1,951,139,600 ordinary shares and 320,406,800 preference shares were deposited in the form of ADRs, that amounted to 5,7% of the Charter capital of the Company.

The following represents the Company's shareholders as of December 31, 2002 (in shares):

	Ordinary shares	**%**	**Preference shares**	**%**	**Total**
OAO "Svyazinvest"	16,608,946,183 51	–		–	16,608,946,183
Other legal entities1	11,846,001,322	37	5,493,334,059	70	17,339,335,381
Individuals	3,843,834,515	12	2,342,607,227	30	6,186,441,742
Total:	**32,298,782,020**	**100**	**7,835,941,286**	**100**	**40,134,723,306**

1 – includes shares held by Tyumentelecominvest, a subsidiary of the Company.

18. Loans and Borrowings

	Currency	Effective interest rate	Maturity	2002
Short-term borrowings				
Bank loans				
Sberbank	RUR	13-23%	2003	477,298
UralSib	RUR	19.5-21.5%	2003	300,000
Promstroybank	RUR	21%	2003	201,266
Alfa-bank	RUR, EUR	12.5-22%	2003	200,545
Vneshtorgbank	RUR	21%	2003	150,000
Other		10-23%	2003	726,798
Vendor financing				
Alcatel	EUR	4.5-6.5%	2003	134,090
Iskratel	USD, EUR	6-10%	2003	43,122
Other				63,161
Regional authorities loans	RUR	1-6%	2003	3,000
Other				73,878
Total short-term borrowings				**2,373,158**
Long-term borrowings				
Bank loans				
Sberbank	RUR	18-20%	2003-2004	1,583,931
Alfa-Bank	USD	8%	2003-2004	329,873
National Reserve Bank	EUR	10%	2004-2005	236,697
Svyazbank	RUR	22%	2004	31,326
Other		18-22%	2004-2007	253,788
Vendor financing				
Vnesheconombank	EUR	4.5-6.5%	2004-2006	180,782
London Forfeiting Company PLC	EUR	4.5-6.5%	2004-2006	183,489
Drezdner Bank	EUR	4.5-6.5%	2004-2006	135,430
Siemens AG	EUR	6%	2003-2006	57,210
Other	RUR,USD,EUR6	-20%	2003-2006	676,343
Regional authorities loans		0-10.5%	2004	39,851
Bond loan			2003-2009	1,049,997
Total long-term borrowings				4,758,717
Less: current portion of long-term borrowings				(1,645,962)
Total				**3,112,755**

18. Loans and Borrowings (continued)

Short-term borrowings

Short-term borrowings mainly represent ruble bank loans received for working capital financing purposes. Many of these loans are secured by communication equipment.

Long-term borrowings

Sberbank

The Company's long-term borrowings from Sberbank are represented mainly by the ruble-nominated credits with interest at 18-20%. The most significant loans are as follows:

In 2002, the Company signed a credit line contract with AKB "Sberbank" in the amount of 450,000. The loan maturity date is June 17, 2004. During 2002, the annual interest rate on this loan was 19%. As of December 31, 2002 the Company's outstanding balance on this loan was 450,000 and accrued interest outstanding was 984. Property, plant and equipment for the amount of approximately 755 million rubles were pledged as collateral for this loan.

In 2002, the Company signed a credit line contract with AKB "Sberbank" in the amount of 390,000. The loan maturity date is February 20, 2004. During 2002, the annual interest rate on this loan was 19.5%. As of December 31, 2002, the Company's outstanding balance on this loan was 390,000 and accrued interest balance was 2,917. Property, plant and equipment for the amount of approximately 731 million rubles were pledged as collateral for this loan.

In 2002 the Company signed a credit line contract with AKB "Sberbank" in the amount of 370,000. The loan maturity dated is April 13, 2004. During 2002 the annual interest rate on this loan was 19%. As of December 31, 2002, the Company's outstanding balance on this loan was 370,000 and accrued interest balance was 3,274. Property, plant and equipment for the amount of approximately 649 million rubles were pledged as collateral for this loan.

Alfa-Bank

The Company's long-term borrowings from Alfa-Bank are represented mainly by a US$12.9 million loan granted in 2002. The loan maturity date is September 20, 2004. During 2002 the annual interest rate on this loan was 8%. As of December 31, 2002, the Company's outstanding balance on this loan was US$9.6 million (305,866). Property, plant and equipment for the amount of approximately 430 million rubles were pledged as collateral for this loan.

National Reserve Bank

In 2002, the Company received a loan from AKB "National Reserve Bank" in the amount of EUR3.8 million (116,659). The loan maturity date is October 7, 2005. During 2002 the annual interest rate on this loan was 10%. As of December 31, 2002, the Company's outstanding balance on this loan was EUR3.5 million (116,659). Property, plant and equipment for the amount of approximately 134 million rubles were pledged as collateral for this loan.

In 2002, the Company received a loan from AKB "National Reserve Bank" in the amount of EUR4.2 million (120,038). The loan maturity date is October 7, 2005. During 2002, the annual interest rate on this loan was 10%. As of December 31, 2002, the Company's outstanding balance on this loan was EUR3.6 million (120,038). Property, plant and equipment for the amount of approximately 153 million rubles were pledged as collateral for this loan.

Vendor Financing

Alcatel

The Company entered into several agreements with Alkatel, under which Alcatel delivered and installed telecommunication equipment. The related liability is denominated in Euro. Part of these loans bears interest at 4.5-6.5% per annum. Interest on financing with below market rates is accrued at a weighted average interest rate on the Company's interest bearing borrowings obtained in appropriate periods and denominated in Euro, which approximated 6% per annum.

Vnesheconombank, London Forfeiting Company PLC and Drezdner Bank purchased the amounts due to Alcatel under the vendor financing agreement, including accrued interest and penalties in 2002.

In 2001, the Company entered into several agreements with Siemens AG, under which Siemens AG delivered telecommunication equipment to the Company. The amounts payable under these agreements are denominated in EUR. The agreements do not provide for interest payments thus the amount of liability as at December 31, 2002 represents the present value of future payments. Interest is accrued at a weighted average interest rate on the Company's interest bearing borrowings obtained in appropriate periods and denominated in EUR, which approximated 6% per annum.

Other

Other vendor financing comprises amounts payable to various vendors and includes several overdue amounts for which the date of legal extinguishment of a liability has not occured as of December 31, 2002.

Bonds

On August 2, 2002, the Company issued 1,000,000 coupon bonds with par value 1 each. Bonds have 12 coupons paid each 90 days having an annualized interest rate at 17.5%. The bonds have a stated maturity of August 6, 2005.

On August 19, 2002, the Company placed an irrevocable offer to retire the bonds on August 18, 2003 in the event the bonds were presented to the Company for settlement by August 11, 2003. As the Company has no control over the process of bonds presentation for repayment, the liabilities are classified as short-term as of December 31, 2002.

The bond's market value was 102% of par value as of December 31, 2002.

In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

19. Obligations under Finance Leases

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

	Minimum payments	Present value of payments
Within one year	816,918	780,763
After one year but not more than five years	499,748	250,884
Total minimum lease payments	1,316,666	
Less amounts representing finance charges	(285,019)	
Present value of minimum lease payments	**1,031,647**	**1,031,647**

In 2002 the Company's major lessor was RTC-Leasing (see also Note 24, Related Parties Disclosures). Effective interest rate on finance leases in 2002 varies between 11% and 44% per annum.

In accordance with the agreements with RTC-Leasing, the lessor has a right to adjust schedules of future lease payments subject to certain changes in economic environment, in particular, change in the refinancing rate of the Central Bank of the Russian Federation.

20. Accounts Payable and Accrued Expenses

	2002
Settlements with suppliers for capital construction	943,931
Trade accounts payable	519,627
Advances received from subscribers	451,094
Payable to personnel	359,875
Other trade payables	561,751
Total	**2,836,278**

21. Taxes and Social Security Payable

As of December 31, 2002, the Company identified the following major taxes payable:

	2002
Value added tax	401,118
Profit tax	46,348
Property tax	53,662
Personal income tax	31,198
Sales tax	24,698
Unified social tax	61,476
Other taxes	41,436
Total	**659,936**

22. Pension Plans and Employee Benefits

The Company has social payments to employees such as bonuses to employees aged 50 to 60 years old, pecuniary aid (material assistance), education, medical and other benefits. The social payments are expensed as incurred and recorded as a part of salary expenses in the income statement. The social payments equated to 309 million in 2002.

In 2002, the Company recognized various payments to employees in addition to salary. These payments generally represent financial aid to the Company's employees with limited abilities and bonuses to employees, which had made no breaches of internal policies during the last fiscal year. Such benefits were included in salary, benefits, salary taxes and other social expenditures in the accompanying consolidated statement of operations for the year ended December 31, 2002 and approximated 331 million roubles.

In addition to statutory pension benefits, the Company also contributes to defined benefit plans, which cover most of its employees. Non-government pension fund "Svyazist", non-government pension funds "Parma-Pension" and "Khanti-Mansiiskiy", which are related to the Company, maintain the plans. The plans provide for payments of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men. The benefits are based on a formula recognizing minimal statutory pension level, length of service, both in the Company and in the telecommunications industry as well as final average earnings and position in the Company. The benefits are not vesting and are subject to the employee retiring from the Company on or after the above-mentioned respective ages. The Company makes contributions to the pension funds in the amounts representing fixed percentage of participating employees' salaries or in amounts fixed in the agreements with pension funds, depending on the nature of each particular agreement.

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

23. Commitments and Contingencies

Insurance Coverage

The Russian insurance industry is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. During 2002, the Company maintains insurance coverage on a significant part of their property, plant and equipment asset bases, but there is no compensation in respect of business interruption, or third party liability related to property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss of destruction of certain assets could have a material adverse effect on the Company's operation and financial position.

Litigation, Claims and Assessments

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

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

24. Related Party Disclosures

(1) Svyazinvest

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

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

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

(2) Rostelecom

Rostelecom, a majority owned subsidiary of Svyazinvest, is the primary provider of domestic long distance and international telecommunications services in the Russian Federation.
The Company has negotiated interconnection agreements with Rostelecom. The annual expense associated with traffic carried by Rostelecom and terminated outside of the Company's network is stated as interconnection charges. Related amounts included in the accompanying consolidated financial statements as at December 31, 2002 and for the year then ended were as follows:

	2002
Channel rent and traffic charges paid to Rostelecom	1,780,823
Revenue from Rostelecom	11,246
Accounts payable to Rostelecom	152,496

(3) Transactions with State organisations

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

Government subscribers accounted for approximately 13 % of trade accounts receivable as of December 31, 2002. Amounts outstanding from Government subscribers as of December 31, 2002 amounted to 216,700.

(4) RTC-Leasing

RTC-Leasing is an investee of Rostelecom. Rostelecom exercises control over the management, policies and day-to-day operations of RTC-Leasing. RTC-Leasing purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment.

In 2002 the Company concluded a number of capital lease agreements with RTC-Leasing. Under the agreements total minimum lease payments equated to 892,206 (including VAT) (see note 19 "Obligations under Finance Leases").

(5) Non-Commercial Partnership "Center for Research of the Problems in Development of Telecommunications"

Non-commercial partnership "Center for Research of the Problems in Development of Telecommunications" (hereinafter "the Partnership") is an entity related to OAO "Svyazinvest". The Company has an agreement with the Partnership, under which it provides financing for mutually beneficial projects undertaken by the Partnership on behalf of the Company and other subsidiaries and associates of Svyazinvest. Payments to the Partnership included in other operating expenses in the accompanying consolidated statement of operations for the year ended December 31, 2002 amounted to approximately 147 million rubles.

(6) Management

In 2002 the Company acquired from certain members of management shares of ZAO "Radiotelefon-G and ZAO "Mobilniy servis" for approximately US$3.04 million (103,191 – see note 10).

In thousands of rubles in terms of purchasing power of the ruble at December 31 2002

25. Financial Instruments

Fair Values

Management believes that carrying value of the financial instruments included in the accompanying consolidated balance sheet as of December 31, 2002 approximates their fair value.

Interest Rate Risk

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

	<year	1-5 years	>5 years	Total
Fixed rate				
Short-term borrowings	(2,373,158)	–	–	(2,373,158)
Long-term borrowings	(1,644,962)	(3,100,634)	–	(4,745,596)
Obligations under finance leases	(780,763)	(250,884)	–	(1,031,647)
Floating rate				
Loan payable to regional governments under CBR rate	(1,000)	(12,121)	–	(13,121)

26. Subsequent Events

Telecommunications Reforms

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

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

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

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

Dividends

On June 20, 2003, the annual meeting of shareholders of the Company approved the dividends for the year 2002 in the amount of 0.0091 rubles per one preference share and 0.00394 rubles per one ordinary share. Total dividend announced amounted to 198,564 (127,257 and 71,307 for preference shares and ordinary shares, respectively). Dividends for the year ending December 31, 2002 are payable during 2003 and will be recognized in the financial statements as of and for the year ending December 31, 2003. (See also Note 7, Dividends Paid and Proposed.)

Issue of bonds

On April 29, 2003 the Board of Directors approved the issue of 3,000,000 documentary bearer non-convertible bonds with 1,000 rubles face value each. Bonds have 6 coupons. Interest payments per each coupon are scheduled for every 182nd day from the first day of the placement. Interest rate is to be set on tender held on the date of issue. The debentures mature 1,092 days after the placement. On July 22, 2003, the Company placed the bonds. The annual yield rate for the first coupon was set at 14.25%.

Expiration of offer on bonds

On August 18, 2003, no bonds were presented to the Company for settlement (See Note 18). Accordingly, no bonds were retired.

26. Subsequent Events (continued)

Contracts

(1) Implementation of Oracle

In May 2003, an agreement was signed with ZAO Open Technologies 98 for the purchase of Oracle E-Business Suite for a total of US$18.7 million. In May 2003, a loan agreement was approved with ZAO Open Technologies 98 for a total of 90,000, the purpose of which was to finance the purchase of Oracle E-Business Suite.

(2) Purchase of cellular equipment

In April 2003, an agreement was signed with OAO Yugra-Telecom for the purchase of cellular equipment for a total of US$2.9 million.

(3) New lease agreements with RTC-Leasing

In April and July 2003, related party leases were concluded with OAO RTC-Leasing with undiscounted future lease payments totally 603,688 over five years.

(4) Loan agreements with Sberbank

In May 2003, the Company approved an agreement for the provision of a non-revolving loan facility and a collateral agreement with the Joint Stock Commercial Savings Bank of the Russian Federation (Sberbank), for 100,000 with an interest rate of 16% and maturity in 18 months.

In July 2003, the Company approved an agreement for the provision of a non-revolving loan facility and a collateral agreement with the Joint Stock Commercial Savings Bank of the Russian Federation (Sberbank). The loan facility was provided for a total of 400,000 maturing in 18 months with an interest rate of 14.5%.

(5) Loan agreement with Vneshtorgbank

In June 2003, the Company approved a loan agreement and collateral agreement with OAO Foreign Trade Bank (Vneshtorgbank) for a total of US$5.4 million, with an interest rate of 7.65% and maturing in 4 years.

(6) Loan agreements with Alfa Bank

In January 2003, a loan agreement and collateral agreement were approved with OAO Alfa Bank for a total of 200,000 at 20% for 2 years.

In February 2003, a loan agreement and collateral agreement were approved with OAO Alfa Bank for a total of 300,000 at 20% for 2 years.

In May 2003, the Company approved a loan agreement and collateral agreement with OAO Alfa Bank for a total of 500,000 at 16% for 2 years.

In June 2003, the Company approved a loan agreement and collateral agreement with OAO Alfa Bank for a loan totaling 100,000 at 15% for 2 years.

(7) Loan agreement with Transkreditbank
In June 2003, the Company approved a loan facility agreement and collateral agreement with OAO Transcreditbank for a total of 300,000 with an interest rate of 16% for 18 months.

(8) Loan agreements with Promstroybank
In May 2003, the Company approved a loan agreement and collateral agreement with OAO PromStroiBank for a total of 270,000 with interest at 16% for 1 year.

In June 2003, the Company approved a loan agreement and collateral agreement with OAO Promstroibank for a total of 230,000 with interest at 15% for 1 year.

(9) Loan agreement with Guta-Bank
In May 2003, the Company approved an agreement for the provision of a loan facility and collateral agreement with OAO Guta Bank Commercial Bank for Enterprise Development. The loan facility was provided for a total of 200,000 with interest at 16% and maturing in 18 months.

(10) Loan agreement with Pochtobank
In April 2003, the Company approved an agreement for the provision of a loan facility with ZAO Pochtobank, which is related to the Company, for a total of 100,000 with interest at 18% for 2 years.

(11) Loan agreement with Gazprombank
In April 2003, the Company approved an agreement for the provision of a loan facility and a collateral agreement with OAO Gazprombank for a total of 500,000 with interest at 18% for 18 months.

(12) Loan agreements with International Moscow Bank
In January 2003, a loan agreement and collateral agreement were approved with ZAO International Moscow Bank for a total of 100,000 at 20% interest for 18 months.

In April 2003, the Company approved an agreement for the provision of a loan facility and collateral agreement with ZAO International Moscow Bank for a total of EUR2 million.

(13) Loan agreement with Menatep Bank
In February 2003, a loan agreement and collateral agreement were approved with ZAO Menatep Bank for a total of 120,095 at 20% interest for 18 months.

Information for shareholders

General enquiries
For enquiries on all matters not covered below please contact:
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American Depositary Receipts (ADR)
Uralsvyazinform ordinary and preference shares are listed on the Berlin and Frankfurt Stock Exchanges. In the US they trade in the over-the-counter market in the form of Level 1 American Depositary Receipts. Ticker symbols are UVYZY for ordinary shares, UVYPY for preference shares.

Each ADR, both common and preference, is equivalent to 200 ordinary or preference shares. Enquiries regarding ADR holders' accounts and payment of dividends should be directed to the Depositary:
JP Morgan Chase Bank
Trinity Tower, 9 Thomas More Street, London E1W 1YT
Telephone: +44 (0)20 7777 2020
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Holders of ordinary shares
Administrative enquiries concerning shareholdings, such as dividend payments and notification of change of address, should be addressed to:
ZAO Registrator-Svyaz
15A, Kalanchevskaya St.,
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Shareholders can obtain details about their shareholdings through transfer-agent services provided by:
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Share price information
Uralsvyazinform share price information is available from the RTS web-site at www.rts.ru

Website
www.uralsviazinform.com

Financial calendar
Annual General Meeting date: June 20, 2003
2003 interim results announced: August 15, 2003
2003 preliminary results announced: December 15, 2003

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