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A N N U A L  
R E P O R T


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# ANNUAL REPORT 2001

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## MESSAGE TO THE SHAREHOLDERS



**THE PREVIOUS YEAR 2001** has become a new landmark in the history of Uralsvyazinform. Our Company has entered the third millenium as the organizer of the Urals and Western Siberia telecoms merger. This status reflects the actual position of Uralsvyazinform as a telecommunications leader on the Russian market.

Adhering to the strategy of long-term Company shareholder value growth Uralsvyazinform's management proceeded with technical development, services array extension, improvement of the Company's financial position and raising its attractiveness for investors.



All this resulted in transport intrazonal network enlargement by 179 km mainly based on optical fiber links. This allowed the Company to install GSM base stations and allocate Internet access nodes on the extensive territory of the Perm Region.

The Company has implemented the first in Perm optical access network project with the capacity of 15.4 thous. lines. It will provide mass installation of telephones and supply a wide range of data services. The created network is a prototype broadband access network.

The launch of a multiservice network project in Perm has become an important stage in the introduction of new data services and combined data and voice services.

We have done a significant spurt in GSM mobile communications expansion. In 2001 the GSM network overstepped the bounds of Perm city and covered all the biggest cities of the region. Step by step it is enveloping all the Federal highways in the region. Last year the number of GSM subscribers totaled more than 50 thous. (5.8 times on 2000).

Significant investments into local telephone network and mobile communications made for a 34% growth in services sale (as compared with the previous year). In particular, the revenues from cellular communications increased from 17% in 2000 to 26% in 2001. The ratio of revenues from services provided to the residents climbed from 45.4% to 51.4% respectively.

At the heart of these 2001 results is the enhancement of local network by 63.2 thous. lines thus brining it to a total of 655 thous. lines, and mobile network increase by 136 thous. subscribers, its overall data base reaching 165 thousand. All in all in 2001 the aggregate network capacity grew by 199.2 thous. subscribers and switching systems digitalization reached 57%.

Uralsvyazinform is by far the biggest telecommunications operator in the Urals region. The Company provides 86% of local telephony services, 98% of domestic and international long-distance services, 100% of mobile communications, 71% of paging and 74% of data transmission services including Internet. The Company supplies TV and radio broadcasting services as well. We are vigorously implementing advanced technologies and introducing new equipment to furnish high-quality services to our customers including the most exigent ones. Intelligent Network services like premium rate, free-phone, televoting and personal number as well as virtual calling cards — became rather popular with the users. Cable TV (CATV) and Automated Information Center services have also found a ready market.

To provide state-of-the-art services to the residents of the region the Company ploughs back most of its profit into communications infrastructure development and enhancement of the services range.

The Company actively attracts funds via bonds issue, different kinds of credits and equipment lease. All these projects promote Uralsvyazinform's dynamic technical development.

Competent technical policy, financial reliability and information transparency of the Company keep up steady interest of investors. Its shares are traded on the Russian Trading System, in the stocks segment of the Moscow Interbank Currency Exchange (MICEX), are quoted on Frankfurt, Berlin and NEWEX stock exchanges and on the US over-the-counter market. The Company's stability stimulates the development of mutually beneficial cooperation with business partners and foreign financial institutions, among them such leading telecommunications equipment manufacturers as Alcatel, Huawei Technologies, ADC, DAMM Cellular Systems, Cisco Systems, Nokia Corporation, Siemens and Russian manufacturer «Morion».

In 2001 Standard & Poor's assigned Uralsvyazinform (B-) credit rating and Fitch confirmed its rating as B. The Company has become a laureate in the contest for the quality of communications and services, announced by the Russian Ministry of Communications (in the nomination «Mobile Operator»).

Further Uralsvyazinform's development is linked to the establishment of joined Urals Company by merging the six regional telecoms with Uralsvyazinform: Uraltelecom of Sverdlovsk Region, Svyazinform of Chelyabinsk Region, Khantymansiyskokrtelecom, Tyumentelecom, Yamalelectrosvyaz and Electrosvyaz of Kurgan Region. The merger will maintain the leading positions of inter-regional company on the telecommunications market to serve the build-up of business infrastructure and development of the Urals macro-region economy. It will increase the Company's revenues and raise it's market capitalization providing favorable conditions for investments. The inter-regional Company will improve the quality of communications and drive it on a higher level on the vast territory of the Urals.

Global changes in the telecommunications infrastructure of the Urals macro-region will help its residents, businesses and budget-supported organizations to better intercommunicate with the world community and to raise business efficiency.

Our Company's mission is to build up and meet our customers' needs for telecommunications and information services, and to integrate into the Global Information Society of the 21st century.

**Anton Osipchuk**

Chairman of the Board  
of Directors  
of JSC «Uralsvyazinform»  
First Deputy General Director  
of JSC «Svyazinvest»

**Vladimir Rybakin**

General Director  
of JSC «Uralsvyazinform»

## DEAR FRIENDS

Today's telecommunications and information industry is one of the most dynamic branches with long-term stable growth potential.

As specialists forecast, the development of telecommunications will, in the long term, predetermine scientific and technological progress and will more and more influence people's everyday life.

The emerging global information community dictates new approaches to information and communications technologies upgrading.

Being the biggest telecom in the Western Urals Uralsvyazinform successfully settles the tasks of wide-range hi-tech telecommunications services provision to Perm residents and businesses. It's symbolic that Uralsvyazinform was chosen as the core company for the Urals macro-region telecoms merger. No doubt this will promote more investments into the Company and further development of regional telecommunications.

New operators who come to the Perm region are shaping the competitive environment on the telecommunications market. However, I am sure that Uralsvyazinform will be able to operate effectively even under these changing conditions.

With all my heart I would like to wish communications workers all the success in their activities for the welfare of the native land and its inhabitants!

**Yuri Trutnev**  
Governor of the Perm region



## THE PERM REGION

**The Perm region** is a multinational area sprawling along the western slopes of the Urals Mountains in the basin of the higher and middle Kama river. The region occupies 160 thous. sq. km with the population of more than 3 million.

Founded in 1723 the city of Perm is the capital of the region, just about one thousand kilometers away from Moscow.

The region has convenient access to transportation: it is crossed by two transcontinental railroads and a federal highway. The navigable Kama links the region with the Baltic, White, Black, Azov and Caspian Seas.

The Perm region has enormous timber and water resources. It is rich in minerals: potassium and magnesium salts, coal and oil, chromic ores, gold and diamonds, gypsum and limestone marble. Each square kilometer of the Perm earth entrails is appraised at USD 2 million.

The Perm region is an area of industrial type with all the main intersectorial complexes in its economic structure.

The Gross Regional Product ratio in the national GDP is 2.5 per cent.

In 2001 the industrial output of the Perm region grew by 7% against the previous year and amounted to RUR 140 mln.

The highest rates of industrial production growth were in machine building, ferrous and non-ferrous metallurgy, chemical and petrochemical industries, timber and woodworking branches (compared to the previous year).

Within 2001 RUR 30 billion were invested into the regional economy.

In terms of investment potential the Perm region takes the 11<sup>th</sup> place among 89 entities of the Russian Federation. Annual foreign trade turnover exceeds 2 billion US dollars.

In 2001 cash income of the region's residents totaled RUR 98.5 billion (monthly average income was RUR 2 784 per head).

The Perm region is a part of the Urals economic area. Close neighborhood with highly developed industrial regions promotes the evolution of diversified cooperation links.

## GENERAL INFORMATION ON THE COMPANY

**Open joint-stock company «Uralsvyazinform»** was incorporated in April 1994 as a result of reorganizing the state communications company «Rossvyazinform», and now it leads the telecommunications services market of the Urals region.

The Company provides 86% of local communications services, 98% of DLD and ILD services, 100% of mobile telephony, 71% of paging, 74% of documentary communications and data transmission, including Internet, as well as radio and TV broadcasting.

The Company's network comprises 573 automatic switches and RSUs (Remote Subscriber Unit) with a total installed capacity of 655 thousand lines; 57% of them are digital.

Intrazonal lines are arranged on SDH digital systems via microwave and optical links. These lines are 55.5% digital.

Installed capacity of GSM system is 150 thous. subscribers and that of NMT is 15 thous.

Uralsvyazinform's shares are traded on the Russian Trading System and on the Moscow Interbank Currency Exchange (MICEX). As Level 1 ADRs they are quoted on Berlin, Frankfurt and NEWEX stock exchanges and on the US over-the-counter market.

### Company address:

68 Lenin str., Perm 614096, Russia

**Ph.:** +7 3422 34 12 00

**Fax:** +7 3422 34 33 36

usi@uralsviainform.com

www.uralsviainform.ru

www.uralsviainform.com

### Company Representative Office in Moscow

**Address:** 48 Nikolo-Yamskaya, build. 2, Moscow 109004

**Ph.:** (095) 915-74-87

**Fax:** (095) 915-00-93

### Investor Relations Dept.

**JSC «Uralsvyazinform»**

**Address:** 68, Lenin str., Perm

**Ph:** 7 (3422) 90-58-63,

**Fax:** 7 (3422) 34-33-36

investor@usi.ru

www.uralsviainform.com

### Registrar

**ZAO «Registrar-Svyaz»**

15A, Bolshaya Olenya St., Moscow,

107014, P.O. Box 128

**Ph./fax:** +7 (095) 268-71-74

www.regsv.ru

regsw@asvt.ru

### Perm branch #9

**ZAO «Vedenie Reestrov Kompanii»**

**Address:** 64, Lenin str., Perm, 614000

**Ph:** +7 (3422) 33-10-44

**Fax:** +7 (3422) 33-74-22

### Depository

**JPMorgan Chase Bank**

**Address:** 60 Victoria Embankment

London EC4Y 0JP

**Ph.** +44 90 (0)20 7325 4034,

**Fax:** +44 (0) 20 7325 8094

### JP Morgan Chase Bank

**Address:** 36<sup>th</sup> Floor

60 Wall Street, New York

NY 10005, USA

www.adr.com

### Analysts:

1. Standard & Poor's

**Ph:** +44(0) 20 7826 3683

+ 7 095 745 2912

2. Fitch

3. UFG (United Financial Group)

4. Aton

5. Financial Analyst

## COMPANY HISTORY AND MILESTONES

The story of telecommunications development in Perm goes as far back as 1861 when the first telegraph in the Urals started its operation. First telephone lines were installed in 1881: they connected factories, plants and mines of the area. 105 years ago the first city telephone exchange was opened in Perm.

In 1938 Perm Regional Telecommunications Department was founded.

On April 29, 1994, «Rossvyazinform», a state communications company, was privatized to become Open Joint-Stock Company «Uralsvyazinform».

**1994**

Open joint-stock company «Uralsvyazinform» was registered  
The first telephone bonds were placed to the amount of RUR 25 million (redenominated)  
The Perm Toll Exchange Alcatel 1000S-12 was put into service

**1995**

The paging network based on Motorola (USA) was deployed  
First financial audit based on international standards was carried out by Coopers&Lybrand

**1996**

NMT-450 Mobile communications system and fixed cellular DAMPS-800 communications system were put into commercial operation  
ISDN network was put into trial operation  
Time-based billing system for the local telephone calls was launched  
First trading of Uralsvyazinform shares on the Russian Trading System (RTS)

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**1997**

GSM-900 mobile system was commissioned  
SDH network was put into operation in Perm  
Level 1 ADR program for Uralsvyazinform was registered

**1998**

Second stage SDH network was commissioned in Perm  
CCS#7 was introduced on the links Perm-Berezniki and Perm-Solikamsk

**1999**

500-thousandth subscriber was connected to the Company's network  
Trading of Uralsvyazinform shares began on MICEX (Moscow Interbank Currency Exchange)  
«Fitch IBCA», an international rating agency, assigned the «CCC» rating on the Senior Unsecured debt issued by Uralsvyazinform and the «C» Short-term rating.  
The Russian Ministry of Communications and «Interecoms», a Communications & IT research institute, awarded JSC «Uralsvyazinform» a special diploma and a bonus for the high quality of telecommunications production and services in the nomination «Telecommunications operator»

**2000**

Commercial operation of the Perm IN platform was launched  
«Fitch IBCA» upgraded Uralsvyazinform's Senior Unsecured from «CCC» to «B-» and the Short-term rating from «C» to «B»  
Uralsvyazinform in cooperation with «Rostelecom» finished construction of the optical fiber link «Perm-Izhevsk» of more than 450 km  
Start of activities in preparation for Uralsvyazinform's merger with the telecom providers of the Urals and Western Siberia



## MILESTONES OF 2001

■ Non-commercial partnership «Sotrudnichestvo» confirmed Uralsvyazinform's laureate status in the contest «Regional Management Leader» in the nomination «Contribution into stabilization and development of the regional economy»

January

■ A new Uralsvyazinform's operating entity «Perm Payphone» was established

February

■ Company's ADR trading started on NEWEX — a stock exchange for Central and Eastern Europe

March

■ International roaming for GSM subscribers was launched

April

■ International rating agency FITCH upgraded the Company's Senior Unsecured from «B-» to «B» and confirmed the Short-term rating as «B»

■ Uralsvyazinform hosted the 4<sup>th</sup> International Conference «Development of Telecommunications in the Regions of Russia. Perspective Technologies for Russian Telecommunications Market»

■ Uralsvyazinform participated in the Moscow international exhibition «Svyaz-Expocomm 2001» and exhibited new technologies and solutions applied on the Company networks

May

■ Mr. Vladimir Rybakin, General Director of Uralsvyazinform, received a certificate «Best Russian Manager» awarded by the Russian public commission on Peter the Great National Prize

June

■ Corporate newspaper «Uralsvyazinform — Nasha Gazeta» became a laureate of the 6<sup>th</sup> All-Russian Mass-media Festival «The Whole Russia — 2001» in the nomination «New Generation Mass Media»

■ A new service «GSM pager» was introduced

■ The 8<sup>th</sup> issue of monetary bonds to the amount of RUR 50 mln. was placed

■ JSC «Uralsvyazinform» became a laureate of the Telecommunications Quality Contest held by the Ministry of Communications (in the nomination «Mobile Operator»)

■ The Annual General Meeting of Uralsvyazinform's shareholders was held to approve the annual report, balance sheet, Company's profit and loss account and profit distribution. The Meeting fixed the dividend amount, quantified the maximum number of the Company's authorized common and preferred shares (35 000 000 000 and 15 000 000 000 respectively), amended and supplemented the Charter and approved its new edition

■ The Board of Directors approved the following swap ratio for the shares of the merged companies into Uralsvyazinform's shares:

July

OJSC «Svyazinform» of Chelyabinsk Region — 1 316.73752298

OJSC «Uraltelecom» of Sverdlovsk Region — 604.55185921

OJSC «Khantymansiyskokrtelecom» — 161.22295530

OJSC «Tyumentelecom» — 169.26463472

OJSC «Electrosvyaz» of Kurgan Region — 133.30259734

OJSC «Yamalelectrosvyaz» — 220.75756257

## MILESTONES OF 2001

### July

■ Extraordinary General Meeting of Shareholders approved Merger Agreements and reorganization in the form of merger with JSC «Uralsvyazinform» of the following Urals telecoms:

**OJSC «Svyazinform»** of Chelyabinsk Region

**OJSC «Uraltelecom»** of Sverdlovsk Region

**OJSC «Khantymansiyskokrtelecom»**

**OJSC «Tyumentelecom»**

**OJSC «Electrosvyaz»** of Kurgan Region

**OJSC «Yamalelectrosvyaz»**

### October

■ Uralsvyazinform took part in the first Forum «Infocommunications of Russia — 21st century» where the concept of merger was presented for the first time

■ Uralsvyazinform's General Director V. Rybakin became a laureate of the 8th All-Russian Contest «Career-2001»

■ Uralsvyazinform, as inter-regional company, held a presentation in Moscow for investors and stock analysts in the frame of joined project of RTS stock exchange and JSC «Svyazinvest»

### November

■ On the basis of Uralsvyazinform ITU-T in association with St. Petersburg's State University of Telecommunications named after M. Bonch-Bruevitch held the 3rd International Seminar «Modern Network Management»

■ Uralsvyazinform won the license to run mobile operation in the range of 1800 MHz (DCS 1800)

### December

■ Uralsvyazinform's General Director V. Rybakin was elected as a deputy to the Perm Regional Legislative Assembly

■ Standard & Poor's rating agency assigned «B-» long-term domestic and foreign currency credit rating to Uralsvyazinform, outlook referred to as stable

■ FITCH, the international rating agency reaffirmed the Senior Unsecured rating of OAO Uralsvyazinform as 'B'. The Short-term rating of 'B' is also affirmed. The Rating Outlook remains Stable

■ GSM subscribers totaled 50 thousand

■ Optical access network of 15 thous. lines was put into operation in Perm

■ The 1<sup>st</sup> phase of Multiservice Network was commissioned in Perm

## DEVELOPMENT STRATEGY OF THE COMPANY

### MISSION:

To build up and meet our customers' needs for telecommunications and information services, and to integrate into the Global Information Society of the 21st century.

### GOALS:

— Global (national)

To raise scientific, industrial and economic potential of Russia

To promote its integration into the Global Information Society

— Regional

To gain leadership in the telecommunications market of the Urals macro-region to assist in setting up its business infrastructure and developing the region's economy.

— Commercial

To increase the revenues and raise market capitalization of the Company, and to create favorable conditions for investments.

— Corporate

To enable every employee of the Company to implement his/her creative abilities pursuant to the Company's corporate culture.

### TASKS:

— Growth of the Company's earnings through aggressive positioning on the telecommunications market under conditions of Russia's active integration into global information society.

— Technical re-equipment and development of telecommunications networks at all levels.

— Transition to a new scale of services provision and higher level of their quality through a single service package and minimum guaranteed range of services on all the territory of inter-regional Company.

— Forming economically sound tariff policy based on separate accounting of operating costs on telecommunications services.

— Growth of operating profit per line and per employee owing to stepwise reduction of maintenance costs through technical re-equipping.

### The Company strategy focused on boosting its competitiveness provides for:

- capital investments into marketable services;
- setting up a new Company department specialized in services sales to clients;
- setting up a special department for VIP clients;
- packaged support of corporate users under a single Agreement;
- establishment of integrated Billing Center;
- broadening of Internet access;
- working out of services and tariffs list oriented on large corporations, small and medium enterprises.

Uralsvyazinform's marketing concept is guided by a detailed knowledge of our customers' demands and trends for the near future. This concept directly correlates provision of telecommunications services with clients' demands, market study results, and customers' estimation of services assortment and their quality, based on which the Company tailors its marketing policy.

### Marketing strategy implies:

- transport network digitalization;
- development of GSM 900/1800 network and enlargement of its client base;
- enhancement of volume and range of IN services;
- Internet extension on the Perm region territory;
- broadband access networks buildup and implementation of related services;
- ISDN sales growth.

## TELECOMMUNICATIONS MARKET

Stable national economy of the previous year favored dynamic telecommunications development. By 2002 Russian Public Switched Telephone Network (PSTN) numbered 33.8 million subscribers, mobile client base was 7.8 million and there were 7.5 million active Internet users.

Preliminary estimation shows an upsurge of telecommunications services provision by 40.4% (compared to previous year) to RUR 186 billion. This backed the improvement in the incumbent operators' position. Uralsvyazinform's revenues increased by 40.5% against 2000.

Natural monopolies controlled 80.3% of local telephony in terms of revenues and 90% in terms of PSTN client base. Network capacity grew by 2 million telephone lines. Uralsvyazinform, having obtained only ten licenses for communications services provision out of two hundred issued, still remains a monopoly. Due to marginal profitability of local telephony services, particularly in rural areas, this niche still remains practically unclaimed.

Local telephony development was mainly based on modern digital exchanges: digitalization level for all Russian operators was 35%. In the Perm region all the commissioned 63.2 thous. lines were connected to electronic exchanges, digitalization level being 57%.

The strongest competition in telecommunications sprang up in the local telephony services provision to business customers. And the Perm region was no exception.

In its 10<sup>th</sup> jubilee year the Russian mobile telephony was developing dynamically. The overall subscriber base has grown 2.3 times, mainly thanks to GSM operators. Cellular communications saw the highest competition level: 97.6% of mobile market belongs to new entrants. Only 15 «Svyazinvest» operators provide mobile services. Due to such «left-over» investing the revenue share in the total «Svyazinvest» return is only 1.6%, and mobile customers share subscribed to traditional operators is only 3.3% of total mobile subscribers in Russia. Uralsvyazinform — is one of the few incumbents providing cellular services. The portion of mobile telephony in the Company's total revenues increases steadily.

In 2001 national investment into telecommunications exceeded RUR 37.5 billion, i.e. 1.5 more than in 2000. Investments into incumbents' fixed capital are estimated at RUR 28.1 billion, i.e. 110% against previous year. In 2001 investments into Uralsvyazinform's mobile communications were RUR 336.5 million (39.5%).

Rapid telecommunications evolution fuels the search for stable revenue sources. Restructuring of telecommunications industry by regional telecoms merger is one of the most efficient sources. Setting up of the Inter-regional Company of the Urals and Western Siberia is aimed at creation of a powerful high-market-cap and high-profit national company.

## BUSINESS REVIEW

In 2001 earnings from sales grew by 34% to RUR 2167 million compared to previous year. Mostly it was brought by implementation of investment programs of mobile and local telephony development.

Some changes took place both in the sectoral revenues and consumer expenditure structures. The ratio of revenues received from services provided to residents increased from 45.4% to 51.4%. One of the reasons is that the growth rates were higher in the residential sector with a small drop of telephone

## REVENUES FROM MOBILE SERVICES

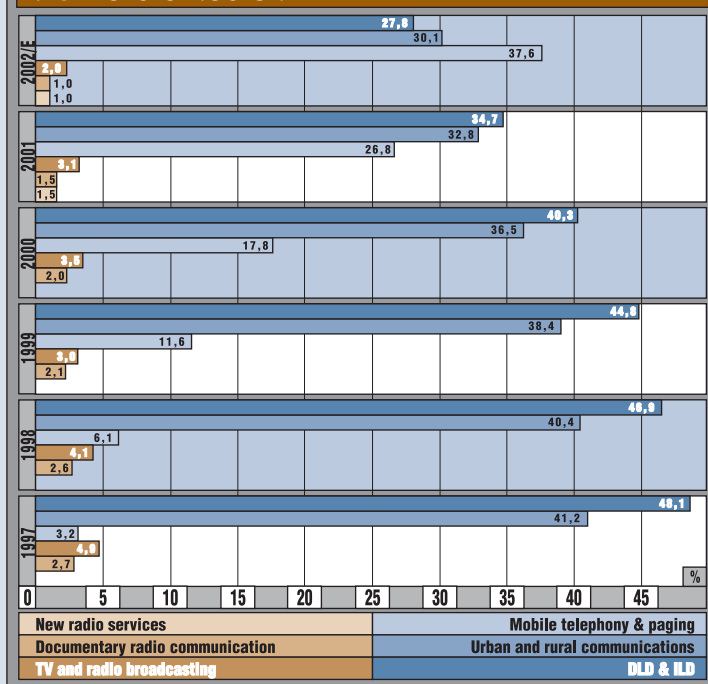
DESCRIPTION	UNIT.	2000	2001
Mobile services (percentage of total)	%	17,2	26,0
Residents	%	45,4	51,4

lines provided to business clients. Besides, it was influenced by some improvements in the tariff structure specifically concerning reduction of cross financing. Pursuant to the instruction of Antimonopoly Ministry, monthly fee for residents went up from RUR 57.00 to RUR 60.00 and connection fee — from RUR 2 000.00 to 6 000.00.

## REVENUES FROM TELECOMMUNICATIONS SERVICES

Year	Revenue (RUR thous)
2001	2 006 321
2000	1 427 786
1999	1 101 246
1998	780 484
1997	742 013

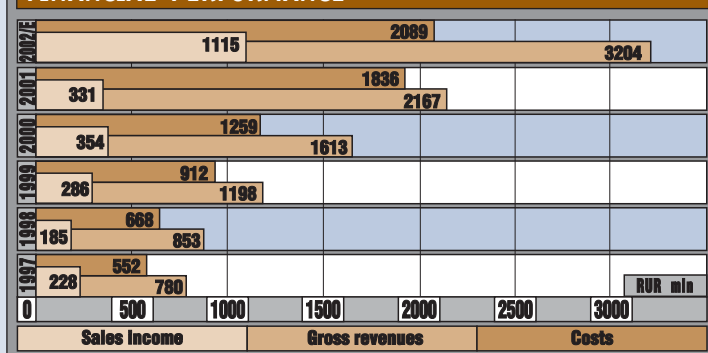
## REVENUES STRUCTURE



In the revenues structure DLD and ILD communications take up 34.7% and local telephony — 32.8%. Mobile telephony share in the Company's revenues changed from 17.2% in 2000 to 26% in 2001.

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## FINANCIAL PERFORMANCE



Sales income totaled RUR 331 million and net profit was RUR 36 million. Some decline in these figures against the previous year was determined by 2.35 increase in depreciation charges due to the fixed assets revaluation as of 01.01.01. EBITDA was RUR 46 million up comprising RUR 508 million.

In the reporting year the Company operated rather efficiently: the revenue per line climbed from RUR 2.9 thousand to 3.3 thousand, the output per employee grew from RUR 211 thousand to 289 thousand and number of lines per employee increased from 71.8 to 81.6.

NET PROFIT AND EBITDA												
2002/E											753	
										329		
2001											504	
										36		
2000											462	
											236	
1999											268	
										121		
1998											-277	
											-392	
1997											-395	
											-256	
											RUR mln	
	-400	-300	-200	-100	0	100	200	300	400	500	600	700
EBITDA												
Net profit												

## DOMESTIC LONG-DISTANCE TELEPHONY

DOMESTIC LONG-DISTANCE TRAFFIC				
2002/E				186,5
2001				148
2000				129,6
1999			83,4	
1998			73,6	
1997			70,8	
0	50	100	150	minutes mln.

DLD services are provided on the basis of digital Alcatel 1000S-12 exchange with an installed capacity of 7209 circuits. The capacity percentage used for DLD communications (backbone and zonal) is 88.0% including 81.4% of zonal telephony. A part of the toll exchange capacity is dedicated to local telephony (11%). The total rate of toll exchange used capacity is 99%.

The digital rate in DLD telephony is 74.6%. 98% of local subscribers have access to the toll exchange. 166 Customer Care centers render DLD services. Outgoing DLD traffic was 14% up on 2000 and reached 148 million minutes. This resulted in RUR 602 million revenues delivered by this kind of services in 2001.

## INTERNATIONAL LONG-DISTANCE TELEPHONY

INTERNATIONAL LONG-DISTANCE TRAFFIC				
2002/E				9294
2001				7624
2000				6795
1999			2981	
1998			2400	
1997			1700	
0	2000	4000	6000	8000 minutes mln.

Revenues received from ILD calls totaled RUR 95 million. Owing to the local and mobile subscribers' growth, the traffic climbed to 7624 thous. minutes.

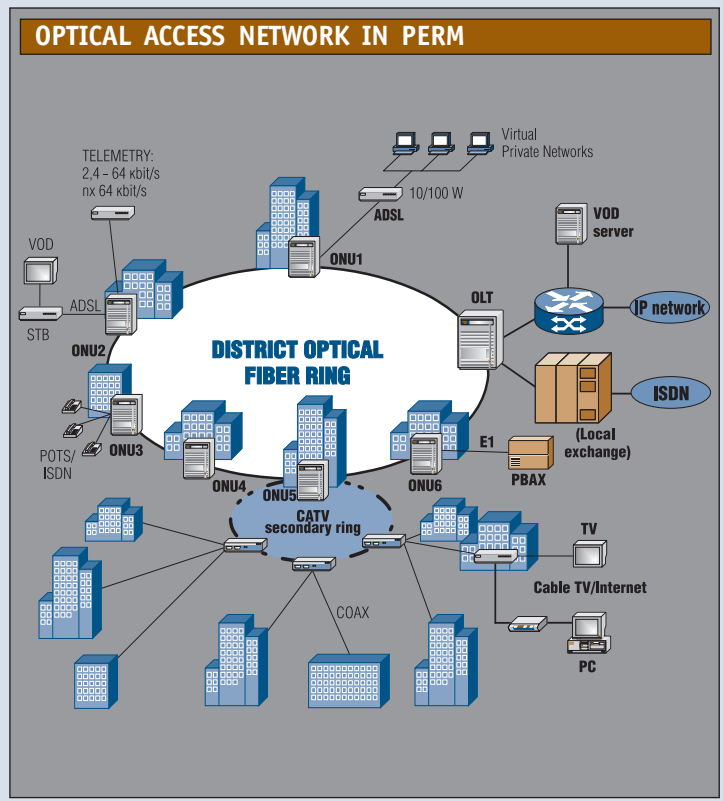
## LOCAL TELEPHONY

As of 1 January 2002 fixed installed capacity was 655 thous. lines including 364 digital lines (56%). The network is also furnished with quasi-electronic (4% of total capacity), cross-bar (34%) and step-by-step exchanges (5%). Total number of used telephone lines is 581 thous. with 503 thous. residential ones (86.5%).

In 2001 the Company's fixed subscriber base grew by 31 thous. Telephone penetration (together with mobile) in the Perm region is 26.7 per 100 residents in the urban area and 10.1 in rural area while in Perm it is 32.9. The waiting list for network connection is 95.4 thous. including 39.4 thous in Perm.

The rate of network capacity usage is 89.2%. Time-based billing equipment covers 87.3% of the totally installed capacity (urban network — 96.8% and rural network — 19.7%). This brought to the Company additional RUR 79.7 million in 2001 (153% up compared to 2000).

TELEPHONE PENETRATION (per 100 residents of the Perm region)	
WAITING LIST AS OF 01.01.2002	95 387
2002/E	25
2001	22,6
2000	18,9
1999	17,7
1998	16,1
1997	15,8
0	10 15 20 25



DIGITALIZATION RATE	
2001	55,5%
2000	50,9%
1999	49,3%
1998	45,9%
1997	41,2%
0	40 45 50 55 60 65

In 2001 local telephony services generated RUR 659 million (126.7% up compared to 2000).

The existing SDH network consists of six rings in Perm and of two rings in Tchaikovsky. The first part of a multiservice network was put into operation with the installed capacity of 720 ADSL lines on 3 nodes to provide Internet and LAN access. An optical access network was deployed in Perm.

**NEW SERVICES**

**Regional Intelligent Network having 420 channels offers the following services:**

- Premium rate call
- FreePhone
- Virtual calling cards (prepaid and account calling cards)
- Televoting

The number of ISDN subscribers doubled to reach 1555. 8.9 thousand customers turned to value-added services.

The revenues brought by these services reached RUR 20.7 million including RUR 17.8 million from IN services and RUR 2.9 million from ISDN.



In 2001 GSM revenues grew 2.6 times and reached RUR 321 million. Mostly this growth was due to the subscriber base increase.

In November 2001 Uralsvyazinform was awarded the license to run cellular services in the range of 1800 MHz (DCS-1800).

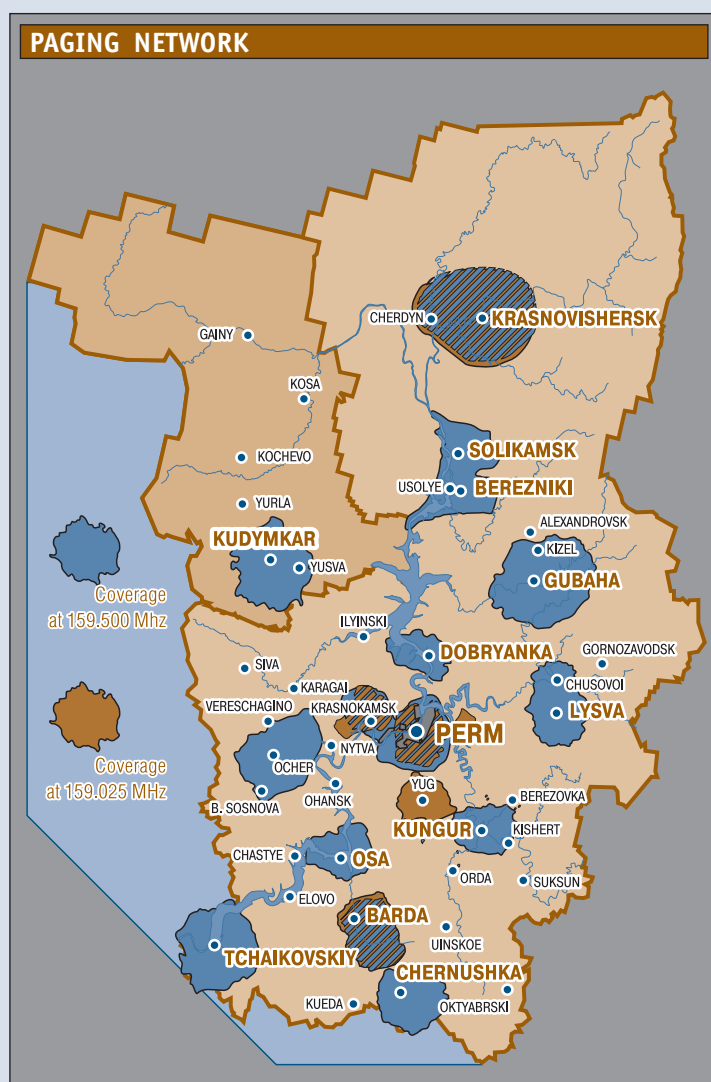
## DAMPS-800

**DAMPS-800** is a fixed analogue cellular system commissioned by the Company in 1996. This wireless standard is mainly used to bring telephones to remote sites and lodgings by means of multichannel units MSU and individual units SSU.

These services are run on Alcatel switching facilities and HNS (USA) radio and terminal equipment.

As of 01.01.2002 the DAMPS data base comprised 2055 customers.

Revenues delivered by DAMPS were RUR 2.7 million.



## PAGING

On the territory of the region the Company provides paging services at the federal frequencies 159.5 MHz and 159.025 MHz.

Network total installed capacity is 26 thous. subscribers, and 19 transmitters cover 70% of the Perm region, having 25.6 thous. existing subscribers.

Revenues derived from paging went up 2.12 times against last year and amounted to RUR 15.3 million.

## «ALTAI» RADIO TELEPHONE NETWORK

The «Altai» radial network is rolled out in Perm using 5 radio trunks. The electronic switch «Kvant-E» has a capacity of 1200 subscribers. In 2001 the Company purchased and installed equipment for another sixth radio trunk which made it possible to extend the equipment capacity.

As of 01.01.2001 the system had 960 subscribers and the revenues of RUR 3.2 million.

## DOCUMENTARY COMMUNICATIONS AND DATA TRANSMISSION

**On the Perm PSTN** we use ЦСК-А exchange. On AT-TX network — Nikola Tesla exchange was replaced with an electronic TK-AT-600 produced by NPO «Alfa-Telex» (Tver, Russia) for 464 ports. It is planned to set up a REX400 message-handling center (in the frame of Russian national Rostelemail network).

Outgoing telegraph traffic dropped by 3%. 99.9% of sent telegrams were delivered to addressees in scheduled time.

42 Customer Care Centers of the Perm region are included into the international «BureauFax» network.

In 2001 the voice-mail facilities were upgraded and the range of services enhanced. The infolegal system «Consultant-plus» is available to everybody.

Documentary communications have delivered RUR 29.2 million to the Company.

## TV AND RADIO BROADCASTING

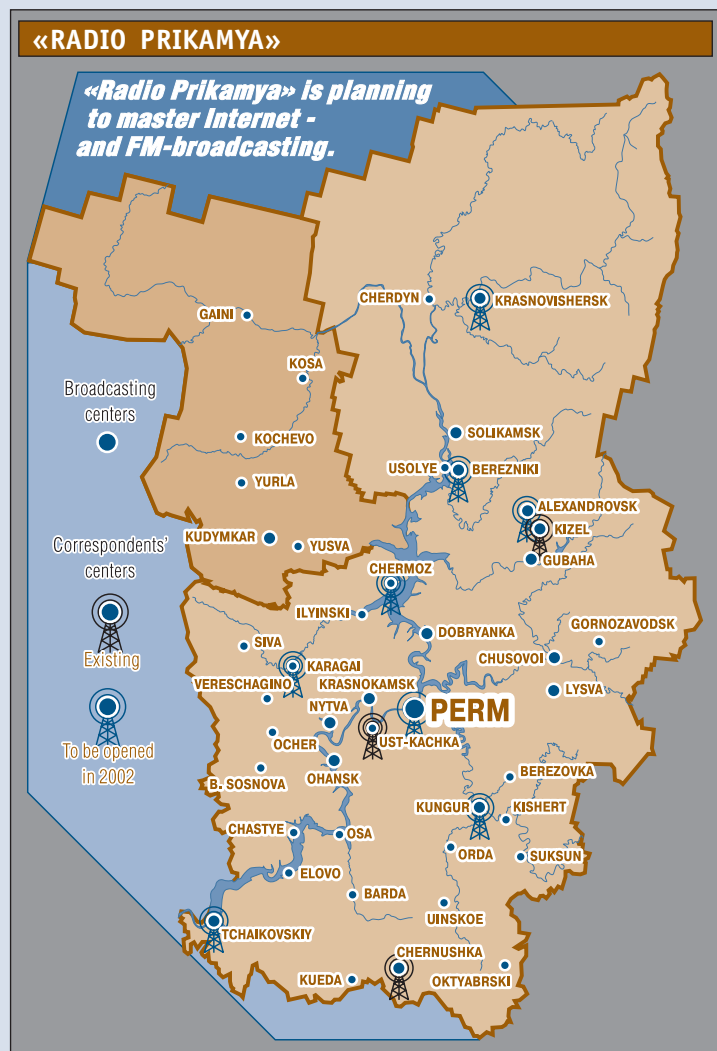
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In 2001 Uralsvyazinform continued to commission new radio broadcasting transmitters in different settlements of the region. Actually all the radio channels are available on its territory.

TV broadcasting brought about RUR 15 million to the Company.

In the Perm region there are more than 380 thous. functioning wired radio sets including 90.5% multichannel ones. «Radio Prikamya» broadcasts in the wired network.

Revenues from wired radio broadcasting comprised RUR 48 million taking into account costs compensation for veterans (pursuant to «Veterans Law»).



## DEVELOPMENT OF A QUALITY SYSTEM PURSUANT TO ISO-9000

One of the effective attributes of quality management is the internal auditing in Uralsvyazinform's branches conducted by an independent commission consisting of experts from different departments. The auditing results are reflected in the quality rating for the current term.

Preparation is underway to introduce internal standards in the Company. They include a description of technological processes for telecommunications services rendered by Uralsvyazinform.

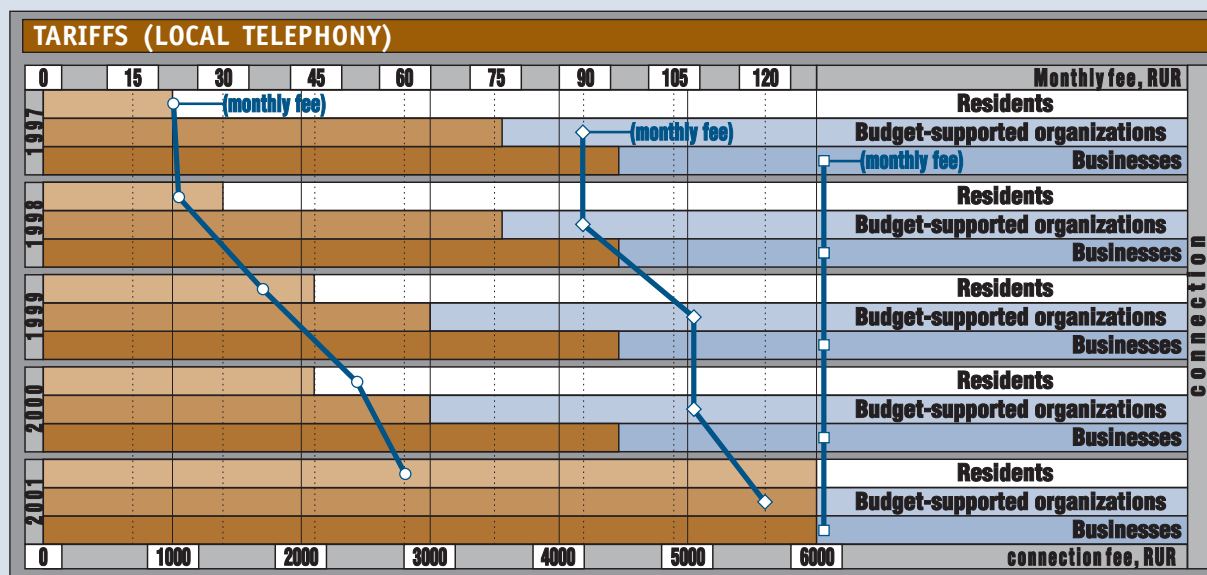
Quality management principles under ISO-9000 are being adjusted on the basis of the Company department «Perm Payphone», having in mind further introduction of the quality system in all Uralsvyazinform's branches.

## TARIFF POLICY

In 2001 the Company streamlined its tariff structure. Local connection fee of RUR 6000 was set for all categories of customers. Monthly telephone fee became RUR 10 higher for both residents and budget -supported organizations, as of 01.01.02 being RUR 60 and RUR 130 respectively.

TARIFFS (LOCAL TELEPHONY)										
	Connection fee, RUR., by the end of the period					Monthly fee, RUR., by the end of the period				
	1997	1998	1999	2000	2001	1997	1998	1999	2000	2001
<b>BUDGET-SUPPORTED ORGANISATIONS</b>										
Urban network	3600	3600	3000	3000	6000	90	90	110	110	120
Rural network	3600	3600	3000	3000	6000	90	90	110	110	120
<b>BUSINESSES</b>										
Urban network	4500	4500	4500	4500	6000	130	130	130	130	130
Rural network	4500	4500	4500	4500	6000	130	130	130	130	130
<b>RESIDENTS</b>										
Urban network	1000	1500	2000	2000	6000	20	23	35	50	60
Rural network	1000	1500	2000	2000	6000	20	23	35	50	60

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## INVESTMENT STRATEGY

A Major part of capital investments in 2001 — RUR 343.1 million (39.8%) — was contributed to the development of local telephone network, and RUR 336.5 million (39.5%) — into cellular technologies.

New electronic exchanges with the total capacity of 63.2 thous. lines were put into service, significantly improving the quality of services, enhancing their range as well as the number of subscribers. Local telephony was actualized on the equipment supplied by Huawei (China), ZAO «Beto-Huawei» (Ufa, Russia), Alcatel (Germany) and by national manufacturers.

Mobile telephony growth on Nokia (Finland), Huawei and Alcatel equipment made it possible to expand NMT and GSM central switches capacity by 6 thous. and 130 thous. subscribers respectively.

The 3<sup>rd</sup> place in terms of volume — RUR 51.4 million (6%) — took the investments into intrazonal domestic long-distance telephony. New optical fiber lines and microwave links, constructed on the facilities delivered by Alcatel and Morion (Perm), appeared on the Company network. This resulted in improved quality and access to advanced ILD services for the residents of regional cities and towns.

RUR 2.9 million were dedicated to TV and radio broadcasting and satellite communications growth. Additionally installed TV and FM transmitters and repeaters essentially enlarged coverage area and increased the number of TV and radio channels provided.

RUR 9.7 million were invested into the installation of the 1<sup>st</sup> phase of a multiservice network.

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INVESTMENTS INTO FIXED CAPITAL (1997 — 2001)						
DESCRIPTION	UNIT	1997	1998	1999	2000	2001
Capital investments from all financing sources	RUR mln.	262,5	234,5	523,9	335,5	851,5
New fixed assets	RUR mln.	274,9	187,7	538	359,8	716,6
Putting equipment into operation						
Urban and rural networks	lines thous	62,85	46,35	33,8	17,922	53,47
Microwave links	Km	2,8	40,8	604,7	177,1	22,5
Optical fiber links	Km	25,4		49,3	202,1	156,91
Mobile telephony	subscr. thous	2,5	1,65	5,6	17,2	136

## COMPANY INVESTMENT PROGRAM FOR 2002

Capital expenditures are planned to be about RUR 1 345.7 million including construction and installation jobs for RUR 326.2 million. It is expected to spend RUR 1 292.7 million for new fixed assets.

General tendency of investments still remains: RUR 498 million (37%) of the total annual investments are planned to be used for local telephony, and RUR 466.1 million (34.6%) — for mobile and fixed radio communications development. It is anticipated to commission some 66.2 thous. new telephone lines in urban and rural area and to enlarge the mobile subscriber base by another 50 thousand.

Further development of traditional fixed telephony and replacement of old electro-mechanical exchanges will be based on optical access technology, which greatly reduces the costs of communications line facilities and shortens timescales necessary for their construction. It will bring the fast transport network to each subscriber.

More than RUR 43 million are allotted for advanced technologies: multiservice and Intelligent networks as well as access networks for corporate clients and HFC (hybrid fiber-coax) system.



## COMPANY SECURITIES AND STOCK

### STOCK

Open joint-stock company «Uralsvyazinform» was registered as a joint-stock company on April 29, 1994 as a result of reorganization of the regional state-owned communications and information company «Rossvyazinform». The then company stock consisted of 692 872 common shares with a par value of RUR 500 and the total par of RUR 346 436 thousand.

In the period from 1995 to 2000, the Company's charter capital grew owing mainly to the increase in the par value of the shares as a result of fixed assets revaluation. Stock history is given in the table below.

STOCK HISTORY					
	Date	Grounds	Charter Capital, RUR	Number of Shares	Par Value RUR
Foundation of the Company	29.04.1994	Reorganization of the state-belonging company	346 436 000	692 872	500
Charter capital increase	29.12.1995	Fixed assets revaluation	380 040 292 000	760 080 584	500
Charter capital increase and par value of common shares change	11.07.1996	Fixed assets revaluation	912 096 700 800	9 120 967 008	100
Par value of common shares change	01.01.1998	Devaluation of the ruble	912 096 700,8	9 120 967 008	0,1
Par value of common shares change	30.08.1999	Cancellation of treasury shares belonging to the Company maintaining the charter capital size	912 096 700,8	8 743 937 729	0,10431189 3459048
Charter capital increase	27.03.2000	Fixed assets revaluation	1 049 272 528	8 743 937 729	0,12

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At present Uralsvyazinform's charter capital is RUR 1 049 272 528 split into 8 743 937 729 common shares with par value of RUR 0.12 each. The Company issued no preferred stock.

At the beginning of 2001 the Company had 912 096 700 authorized common shares. Due to the merger of six Urals and Western Siberia telecoms with Uralsvyazinform, on September 27, 2001 an Extraordinary General Shareholders Meeting approved the decision to increase the number of authorized Company shares up to 35 000 000 000 common shares and 15 000 000 000 preferred shares. At the final stage of the Company's restructuring the shares of the merging companies will be converted into these shares.

### CHARTER CAPITAL STRUCTURE

Uralsvyazinform's major shareholder is the state-owned holding OAO «Svyazinvest».

CHARTER CAPITAL STRUCTURE						
	1996	1997	1998	1999	2000	2001
Individuals	40,8%	36,7%	35,8%	34,3%	32,1%	28,4%
Legal entities	6,9%	5,8%	7,4%	0,9%	1,0%	0,4%
Nominees	1,3%	2,4%	1,8%	4,0%	5,0%	9,3%
ADR holders	—	4,1%	4,0%	7,6%	8,7%	8,7%
OAO «Svyazinvest»	51,0%	51,0%	51,0%	53,2%	53,2%	53,2%

## DIVIDEND HISTORY

Based on the year 2001 results, the Annual General Shareholders Meeting approved a dividend of RUR 0.0012 per common share. The dividend payment is scheduled for the period from August 1, 2002 till the financial year-end.

DIVIDEND HISTORY						
	1996	1997	1998	1999	2000	2001
Dividend, RUR million*	6,064	11,644	-	8,743,937	8,743,937	10,493,725
Dividend per share, RUR*	0,00065	0,00133	-	0,001	0,001	0,0012
Number of shares, million	9120,9	9120,9	9120,9	8743,9	8743,9	8743,9

\*The data on dividend for 1995-1999 are given in comparable values taking into account the change in the nominal value of the ruble in 1998.

## THE COMPANY'S EQUITY MARKET

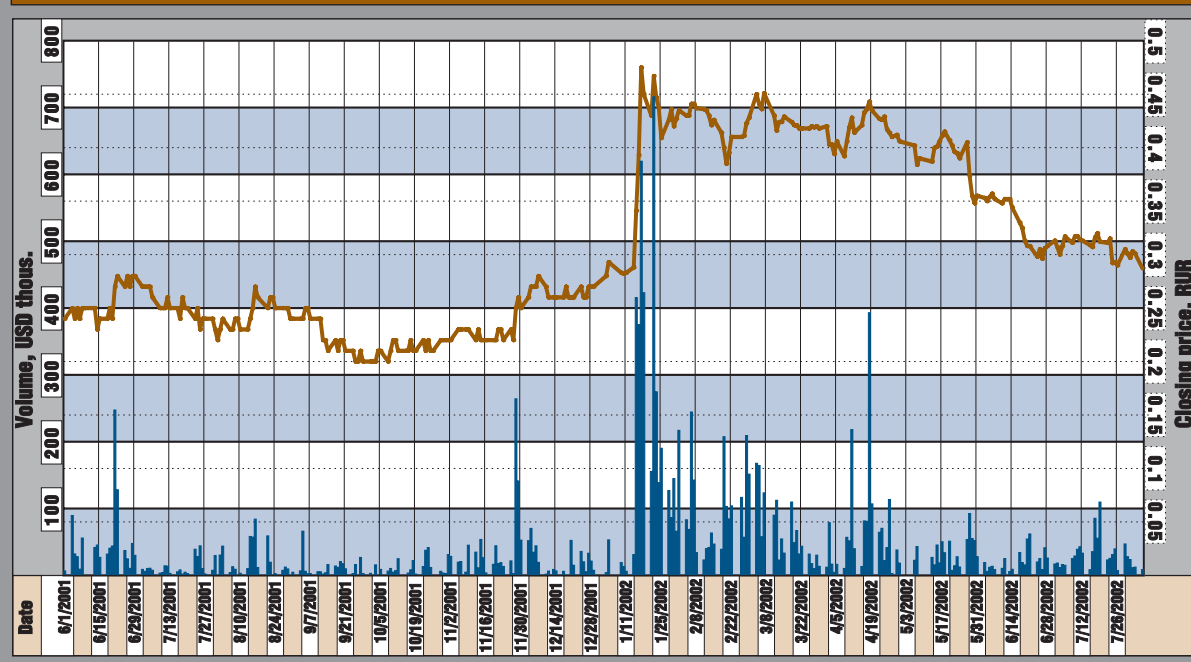
The Company's registrar is ZAO «Registrator-Svyaz» (license №01147 dd. 05.10.1996 issued by the Russian Federal Commission for Securities, valid till 08.10.2002).

On domestic market the shares of the Company are traded on the Russian Trading System (under the URSI ticker) and in the stocks segment of the Moscow Interbank Currency Exchange (MICEX) and Moscow Stock Exchange.

Uralsvyazinform's shares are included into many official indices like RTS Interfax Index, AK&M index and others.

In 2001, the trading volume on RTS was USD 0.864 million while on MICEX it was USD 4.6 million.

### STOCK PERFORMANCE AT MICEX





## AMERICAN DEPOSITARY RECEIPTS

The program of Level 1 American Depositary Receipts (ADRs) was registered in July 1997. One depositary receipt is equal to 200 Uralsvyazinform's common shares. Within 2001 the Company's Depositary bank was the Bank of New York, and on April 24, 2002 the Company ADR program was transferred to JP Morgan Chase Bank.

A total of 678 million of the Company's shares (about 7.8 % of the charter capital) were deposited into ADRs.

In Europe, Uralsvyazinform's ADRs are traded on the Berlin, Frankfurt and NEWEX Stock Exchanges.

In 2001, the total annual trading volume on the Frankfurt Stock Exchange was USD 1.9 million, while on the Berlin Stock exchange it was USD 2.2 million and on NEWEX — 2.7 million.

«Uralsvyazinform»'s investor relations guidelines are laid down in the special IR program, which is to be approved and monitored by the Board of Directors.

Pursuant to this program the Company regularly discloses information to keep the investors informed about the principal corporate events, financial reports, plans and development prospects via its corporate English/Russian web site ([www.uralsvyazinform.com](http://www.uralsvyazinform.com)) and different information systems. In the frame of the IR program in April 2001 Uralsvyazinform's ADRs started to be traded at NEWEX in the NEWEX.PLUS segment.

In December 2001 «Standard & Poor's» assigned B- long-term rating to Uralsvyazinform, while international rating agency «Fitch Rating» set it as B.

Special activities were done in 2001 related to the information disclosure on Uralsvyazinform reorganization by merging with six telecoms of Urals and Western Siberia. They included some conferences for shareholders, creditors, analysts and journalists held in Moscow and Perm.

Besides, Uralsvyazinform's managers and specialists take part in conferences and presentations arranged for the shareholders and investors by Uralsvyazinform and by various stock market players, and they are always ready to answer any questions.

## BONDS OF 01-10 SERIES PLACEMENT

In 2001, Uralsvyazinform placed registered interest-bearing bonds of the 01-10 series.

The Russian Federal Commission for Securities registered the 01-10 prospectus on 28.03.2001. The prospectus supposed to place 50 000 bonds with a par value of RUR 100, to the total amount of RUR 50 million. The starting point of placement was 04.04.2001 and the end was on 26.09.2001.

The 01-10 bonds obtained admittance to RTS Stock Exchange trading. 50% of the issued bonds were placed with corporate investors, Svyazinvest being the major one among them. Other 50% were traditionally distributed among Perm and Perm region residents through Uralsvyazinform's branches in Perm and the Perm region. The yield of these bonds was set at 18.5% p.a.

## URALSVYAZINFORM'S SHAREHOLDING IN OTHER TELECOMS (NOT LESS THAN 10% PARTICIPATION) AND EFFECTIVENESS OF LONG-TERM FINANCIAL INVESTMENTS

URALSVYAZINFORM'S SHAREHOLDING IN OTHER TELECOMS AND EFFECTIVENESS OF LONG-TERM FINANCIAL INVESTMENTS						
№	Company name	Core activities	USI's share in the charter capital, %	Investment into charter capital, RUR thous	Effectiveness of long-term financial investments	
					Return on Assets, % (ROA)	Net present value, RUR thous(NPV)
1	«Perminform» Ltd.	Operation and development of data transmission networks (Internet, Global One, Rosnet, Faxnet, etc)	100	1875,3	38,4	25 752,5
2	ZAO «Permtelecom»	Provision of CATV services	100	240	0,7	219,0
3	«Ural-Inform TV», Ltd.	Radio and TV broadcasting services	100	11,95	38,7	66,1

As of January 1, 2002 Uralsvyazinform has invested into the charter capital of 29 companies totally amounting to RUR 11490.7 thous. Main investments were effected in 1995-1997.

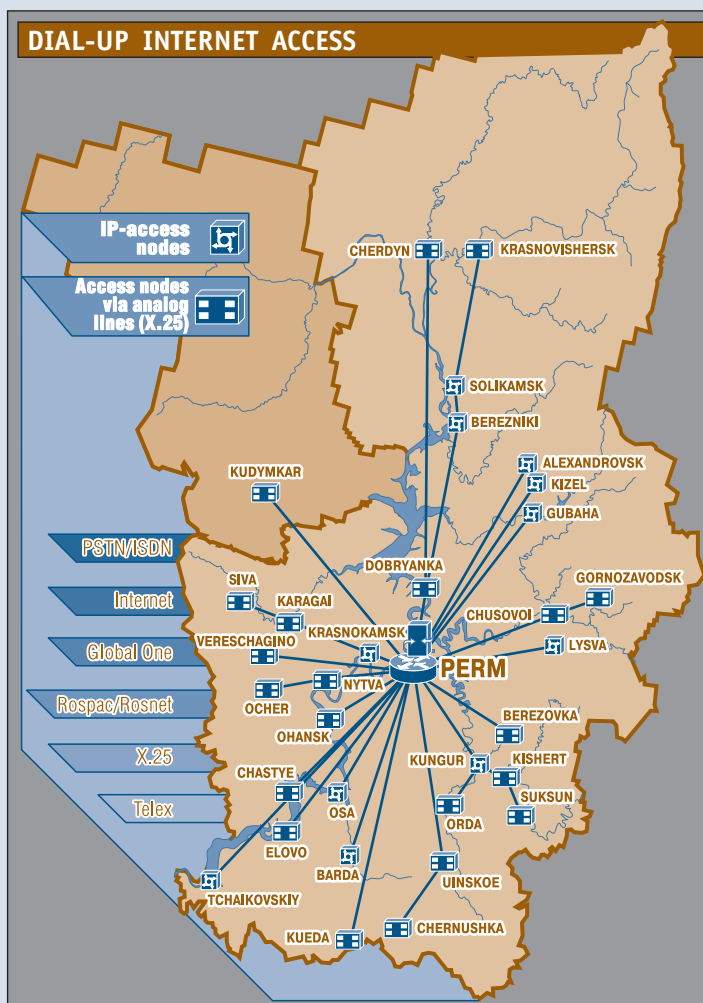
Priority line of the Company long-term financial investments is the enhancement of Perm regional market of telecommunications services including local, DLD and ILD telephony, cellular communications, data transmission (Internet) and TV and radio broadcasting.

«Perminform» Ltd. provides data transmission services in the Perm region and implements advanced computer telecommunications technologies. Its core business activities are:

- Regional data transmission network (RDTN) within which you can access «DIONIS» e-mail system and such networks as GLOBAL ONE, ROSNET, ROSPAC and INTERNET ;
- Enhanced fax-service «FAXNET»;
- Access to INTERNET, GLOBAL ONE, ROSNET;
- Access to information networks of RTS, MICEX, Reuters, Moscow Stock Exchange;

In 2001 Perminform's sales amounted to RUR 74.2 million (2.4 times up), sales income being RUR 7.8 million (2.1 times up).

Uralsvyazinform participation in Perminform raised additional RUR 23.5 million.





**ZAO «Permtelecom» provides** cable TV services. This company is strongly mastering advanced TV broadcasting technologies and deploying new equipment (head-end equipment is «Teleste»). It transmits the following satellite channels: «Hallmark», «Discovery» and «Fox Kids». Some work is being done to transfer CATV to the broadband access network.

**As per accounting report for 2001 ZAO Permtelecom's results were as follows:**

- Company's total gain on sales was RUR 4 065.3 thous (24.9% up).
- Income on sales was RUR 30.2 million (the 3.9 times drop was due to the network transition from narrowband to broadband and increasing costs for new satellite channels broadcasting).

Financial position of this company was found satisfactory.

**000 «Ural-Inform TV»** gets its revenues from airtime sales on two TV channels — 39 UHF and 25 UHF. The Company promotes favorable Uralsvyazinform's image among its services consumers, expansively popularizes new telecommunications services and runs numerous advertising campaigns. It produces its own commercials and transmits programs and materials concerning Uralsvyazinform's activities.

In 2001 Ural -Inform's sales were RUR 4.5 million (38.2% growth), income on sales being RUR 511.5 thous (2.1 times increase).

Uralsvyazinform's positive effect from participation in Ural-Inform TV totaled RUR 4.5 million.

**Other long-term investments are aimed to settle the following tasks:**

- advertising the existing services;
- social security of Uralsvyazinform's employees;
- training and reskilling of Uralsvyazinform's employees.

**Uralsvyazinform's shareholding in other commercial and non-commercial companies (holdings, financial and industrial groups, and others).**

1. Volga Region Association of Telecommunications and IT engineers «TELEINFO».
2. Documentary Communications Association.
3. ZAO «Startcom».
4. Federal Cellular NMT-450 Network Association.
5. Russian GSM Operators Association.
6. «Telecommunications Equipment manufacturers and consumers».
7. Non-commercial partnership «Research Center of Telecommunications Development Problems».
8. «Iskra» Federal Business Services Association.

## COMPANY TECHNICAL EVOLUTION PLANS FOR 2002

**Company technical evolution** in 2002 is subject to two fundamental objectives — upgrading of the existing networks and deployment of new technologies and services to strengthen the Company's market position.

**The first one implies step-by-step replacement of outmoded transmission and switching systems with digital local and long-distance networks.** It is supposed to lay more than 250 km fiber optical cables and to install SDH equipment at almost 500 km of intrazone links. These will mark the final stage of Uralsvyazinform's transport network digitalization. Perm SDH network will undergo reconstruction as well. Perm PSTN nodes will be equipped with powerful STM-1/4 cross-connectors thus increasing throughput and improving network reliability and flexibility. All the equipment belongs to new generation capable to transfer IP/ATM traffic and ready to adapt to DWDM technology.

As for switching, we are going to implement projects for dismantling four out of six remaining step-by-step exchanges including the last two in Perm. Full removal from service will be performed by 2003. It is expected to install digital exchanges in three Perm regional cities.

An important step in the network evolution is the regional toll exchange (AMTS) enhancement. Launched in 1995, its capacity is now effectively exhausted. Having analyzed several options it was decided to build up a new toll exchange — AMTS-2 (territorially spaced with the existing one, at another site). This will significantly improve long-distance telephony reliability and optimize network traffic.

At the local level the Company continues to expand optical access networks combining traditional telephony and data services. Together with the multiservice network, which is supposed to be completed in Perm in 2002 the necessary prerequisites for the NGN (Next Generation Network) infrastructure will be created.

Gradual increase in IN services range made it necessary to extend its platform. It is planned to double the number of trunks to PSTN. Apart from that, IN architecture itself will undergo some changes. Having new exchanges with integrated SSP function it will become possible to realize the IN platform with distributed SSP.

We plan to further enhance the GSM-900 network capacity by 150 thous. subscribers. Main directions of network expansion are to cover Federal highways on the territory of the Perm region, to improve quality of service by means of additional base stations installation in big cities and to broaden the range of services provided. To fulfil the latter task it is planned to implement a specialized wireless IN platform. The quality of calls will be improved owing to the use of 1800 MHz band for which the Company has obtained the license.

### Advanced technologies deployment is to be performed along the following lines:

■ Smooth migration of CATV network to optical coaxial HFC technology. It will give its users the possibility to receive more than 30 TV channels and fast access to Internet applying cable modem technologies.

■ Working out of a Call Center concept. The technology is a universal tool of diversified services provision demanding a user's contact with operator, from semi-automatic servicing of connections up to directory and information services provision.

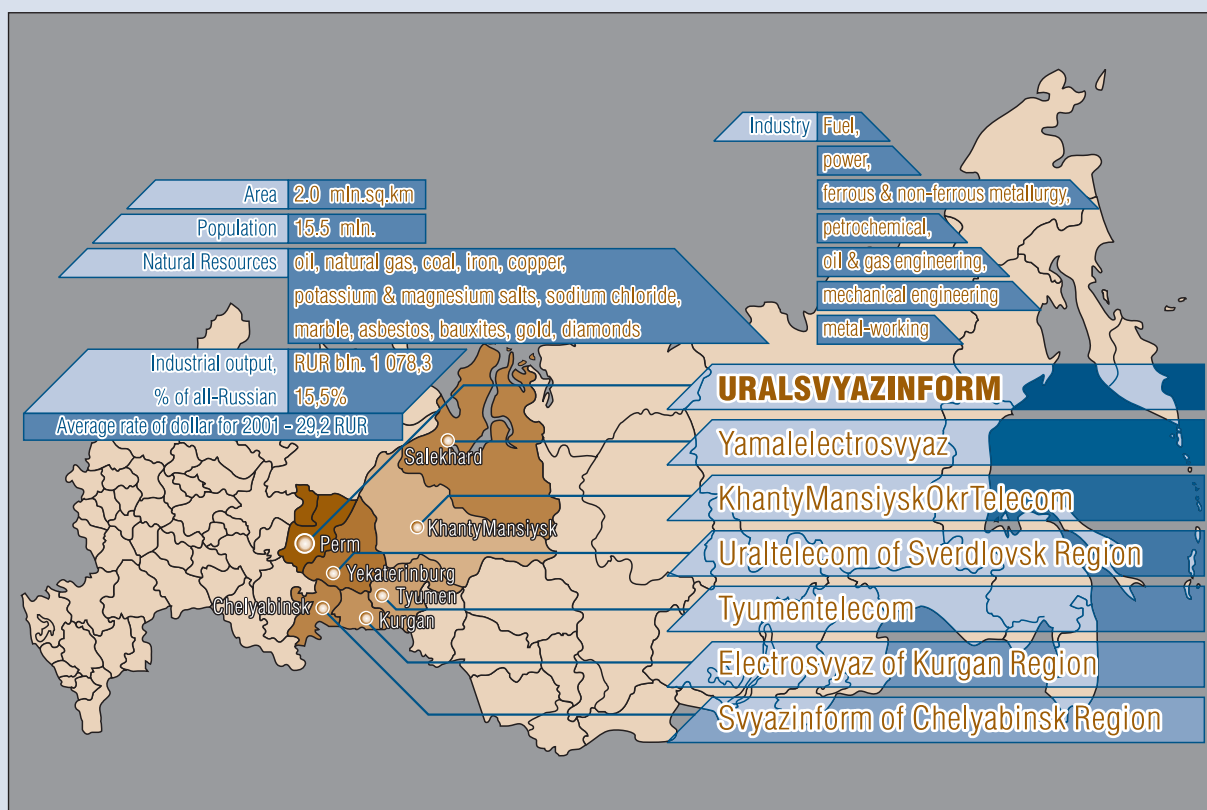
■ Elaboration of scenarios for NGN architecture elements implementation. These aspects are to be studied with possible suppliers of the pilot project providing for installation of trunk and signaling gates (Softswitch). This technology enables a more efficient usage of existing network resources and reduction of operating costs.

Digital transport intrazonal network will be further developed.

Uralsvyazinform's technical policy within next years will be considerably influenced by the reorganization process of Svyazinvest-dependent companies, commenced in 2001. One of the aims of this reorganization is to create an integrated telecommunications network of the Urals and Western Siberia. We are anticipating extensive work on coordination of network development plans and principles, as well as on building-up a corporate information management system.



## INTEGRATED COMPANY



In 2001 telecoms of the Urals and Western Siberia continued their integration into one inter-regional telecommunications company. This restructuring is done by merger of the six regional telecoms **with Uralsvyazinform**:

- OAO «Uraltelcom» (Sverdlovsk Region)
- OAO «Svyazinform» (Chelyabinsk Region)
- OAO «Tyumentelcom»
- OAO «Khantymansiyskokrtelecom»
- OAO «Yamalelectrosvyaz»
- OAO «Electrosvyaz» (Kurgan Region)

The goal of this merger is to establish a high-yielding, high-market-cap and hi-tech customer-oriented national company.

**2001 and the first half of 2002 were extremely rich in the range the work done aimed at merging, the key ones being:**

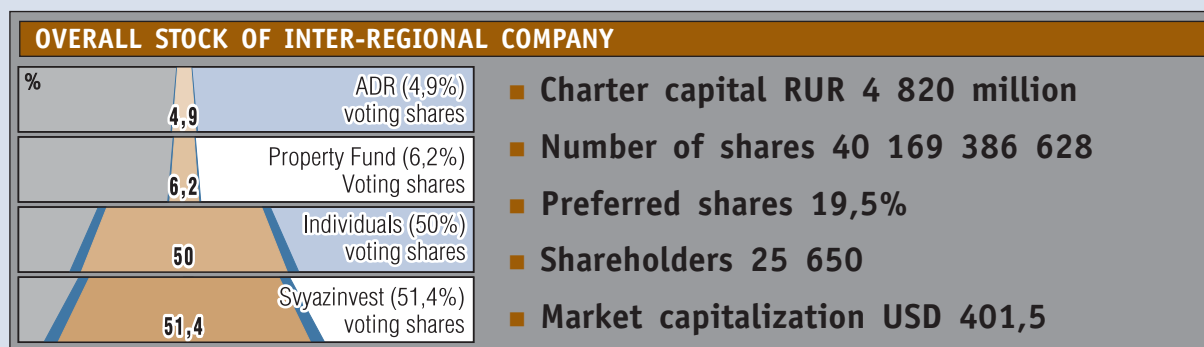
- appraisal of the companies to be merged and fixing swap ratio for shares by the Boards of Directors (consultant — «LV-Finance, Ltd.», Moscow);
- extraordinary AGMs which approved the merger with Uralsvyazinform;
- agreement with Antimonopoly Ministry (MAP) on the terms and conditions of this merger and MAP's approval in January 2002;
- opening of Uralsvyazinform's branches in the regions of the operators to be merged (6 branches);
- Federal Commission for Securities registered the issue of Uralsvyazinform's shares and bonds in which shares and bonds of the merging companies will be converted.

Great work was done to create a corporate governance system of the inter-regional company. Organizational structures of the inter-regional company's general management and regional management were approved in principle, budgeting system was deployed (in association with «Arthur Andersen»), as well as separate accounting system and accounting policies (in association with «McKinsey» and «Unikon»). Next projects on corporate governance system were prepared for exploratory mobilization (in association with «Accenture» and «BCG»).

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In 2001 some joint bodies (working groups of the merging companies, joint working group and Acceptance Board (in association with OAO «Svyazinvest») were performing different activities. Having summarized the 2001 results it was decided to reorganize all these bodies and after the merger is finished to transform them into Managing and Organizing Board, Financial and Economic Board and Board on Technical and Investment Policy of the joint inter-regional company.

**Efforts taken by both the merging companies leadership and OAO «Svyazinvest» to implement the reorganization plan have been highly evaluated by investors: in 1Q 2002 the market capitalization of each merging company more than doubled.**



## INTERNATIONAL RELATIONS

**Uralsvyazinform's** leveling at advanced technologies application when realizing investment projects and building-up its telecommunications networks provokes keen interest of the leading telecommunications equipment manufacturers and international investors. In the reporting year Uralsvyazinform hosted 111 foreign delegations (twice as much as in 2000). Mostly these visits were connected with investment projects preparation and their implementation.

On-going telecommunications evolution is carried out based on equipment and technologies supplied by Uralsvyazinform's strategic partner Alcatel SEL AG (Germany) as well as by Alcatel Italia (Italy), DAMM Cellular Systems A/S (Denmark), CISCO Systems (USA), Nokia Corporation (Finland) and ADC Telecommunications (Israel). It is Huawei Technologies (China) which is also becoming the Company's strategic partner as the cooperation branches out. More than half of the equipment supplied to Uralsvyazinform falls at this company. Some Huawei state-of-the-art technologies have been successfully certified on Uralsvyazinform's networks.

## HUMAN RESOURCES MANAGEMENT

**Company policy** in the sphere of human resources management is covered by the «Personnel» program adopted in 1996 and updated owing to changes taken place in the internal and external environment, as well as the necessity to migrate from personnel management in its old meaning to a complex human resources management system.

New management functions are being introduced: participation in the Company's strategy preplanning, streamlining of Company's structural departments, labor motivation and labor relations management. Some methods of staff selection and adaptation of employees during the evaluation period have been developed in the Company. Special merits are demanded from pretenders to work with customer care departments. Candidates are admitted to job places only on training completion and successfully passed exams. The «Personnel» program is aimed at the practical use by managers of all levels and by specialists dealing with human resources management.

**We run regular personnel auditing which studies the following issues related to human resources management in branches and departments:**

- monitoring of the «Personnel» program application and sticking to the Company's established rules and procedures;
- assessment of the department management quality;
- outlining directions for improving personnel-oriented work, fixing demands in high-skilled personnel and its development.

Following its customer-oriented policy and innovative technologies and equipment implementation Uralsvyazinform sends its employees to raise the level of their skill and train them at special institutions to obtain additional professional education. Training is concrete, specially addressed assistance to those employees whose promotion the Company is interested in. The Company has its own Museum of Telecommunications History and Training Center whose laboratories and lecture-rooms can accommodate more than 270 trainees simultaneously. Special attention during the training is paid to labor relations ethics and servicing culture. High-skilled specialists provide consultations on all issues concerning labor activities including business intercommunications. All activities in the training sphere are coordinated with a special Educational Advisory Panel.

Economic and production competition finds a vigorous response among the employees of the Company branches. Electricians, cablemen and communications operators are engaged in professional contests to win an honorary title of the «Best in craftsmanship». Specialists and managers take part in competitions «Engineer of the year», «Managing Leader» and some others. Those Uralsvyazinform's specialists who took part in All-Russian competition «Engineer of the year» were awarded the title of «Professional Engineer of Russia» confirmed by special certificates (in the nomination «Radio engineering, electronics and telecommunications»).

To optimize production the Company is improving its organizational structure. In 2001 the following changes took place: Solikamsk and Berezniki telecommunications maintenance centers were transformed and some new departments were established, namely: Perm Territorial Telecommunications Node, «Perm Payphone» department, On-line Network Management Center, Technical Center, IT Center and Medical Care Center.

It is a special system of labor protection that warrants our employees' job safety. In particular it includes the specially developed Company internal job safety standards, training and examination on safety rules for each employee and work places certification. Uralsvyazinform's employees improve their health in prophylactic centers, resorts and in city hospitals. Housing conditions of the Company's staff are being upgraded.

Social care sites (sports facilities, health-recovery center «Yolotchka», hostels, kindergartens) are maintained by Uralsvyazinform's branch — utility enterprise «Svyazist». Social partnership with trade unions is governed by branch tariff regulations and the collective agreement.

<b>URALSVYAZINFORM'S PERSONNEL</b>			
	2000	2001	2002 estim.
Number of employees	<b>7634</b>	<b>7489</b>	<b>7046</b>
<b>Educational attainment:</b>			
University educated, persons	1265	134	1400
Vocational school educated, persons	2095	1976	2000
<b>Specialists availability:</b>			
University educated, %	89.7	91.1	91
Vocational school educated, %	89.8	87.6	88
<b>Persons having improved their skills, total</b>	<b>6462</b>	<b>6439</b>	<b>6400</b>
including executives	470	631	600
specialists	1913	2092	2100
<b>Staff</b>			
up to 40 years of age, %	49.6	46.3	46
from 40 to 50, %	33.8	34.4	34
above 50, %	16.6	19.3	20
Male, %	50.5	50.7	51
Female, %	49.5	49.3	49
<b>Turnover of staff, %</b>	<b>5</b>	<b>6.1</b>	<b>6</b>

## PUBLIC RELATIONS

Uralsvyazinform public relations activities were aimed at shaping its employees corporate culture, information transparency, advertising strategy, maintaining good relations with shareholders, clients, business partners, investors, Perm regional and city administration, local government, mass media, non-governmental organizations, political parties and movements.

### The main lines of these activities are:

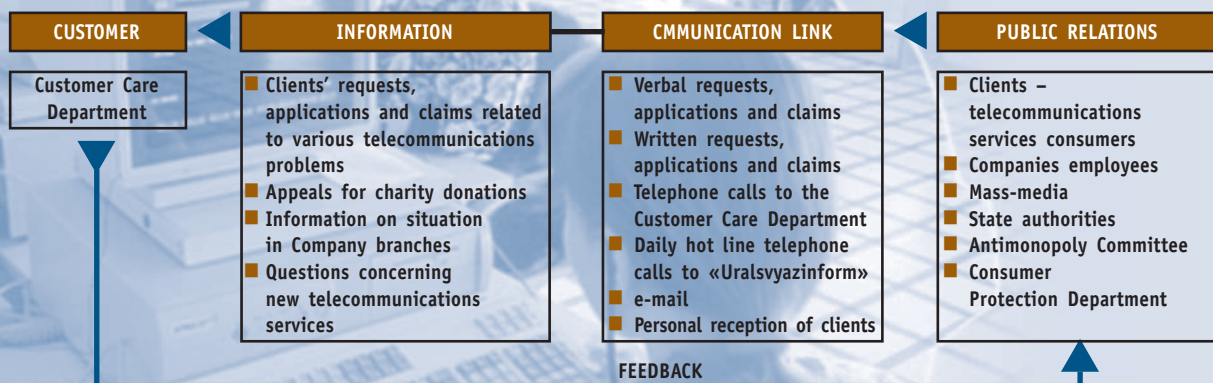
- implementation of a unified information and advertising strategy;
- establishment of an information distribution structure supplying efficient collection, handling and distribution of information between the headquarters, branches, regional companies and subsidiaries of Uralsvyazinform;
- monitoring of basic tendencies in the Company's external and internal activities both on the Perm region territory and beyond;
- timely revealing (with further forecast and prevention) of crisis situations in the relationship between Uralsvyazinform and authorities, investors, shareholders, business partners, competitors, mass media, etc.
- formation of corporate standards for information transparency and information flows management inside Uralsvyazinform;
- arrangement of advertising campaigns with the view of shaping the customer demand;
- enhancement of regional information share in the Svyazinvest news bulletins and improvement of its quality;
- providing information to facilitate the regional telcoms merger;
- information support of the Urals regional telcoms merging;
- information support of Svyazinvest;
- use of opportunities provided by mass media founded by Uralsvyazinform.

## CUSTOMER CARE

The «Everything for the Customer's Welfare» program has become an efficient method of influencing the Company employees, as well as its customers, and that of shaping the corporate culture.

In order to split the issues of technologies and those of high-quality services provision Perm Territorial Telecommunications Node and Service Center separated their duties. The same separation of servicing and production is taking place in mobile departments.

Uralsvyazinform has introduced some Company ISO-9000 based standards for servicing technology to suit different customers, in particular for traditional fixed telephony, ISDN and video-conferencing. The interaction procedure on mobile and paging network maintenance in the Perm region between the Company branches has been defined.



Based on public opinion analysis and JSC «Uralsvyazinform» activities analysis

Three new branches of the Service Center Subscriber Office in Perm were newly equipped and opened additionally to already existing Telecommunications Customer Care departments. Central telecommunications offices in all regional districts provide round-the-clock operation. In Perm there are 7 telecommunications offices working 24 hours a day. On March 14, 2002 Telecommunications Center (23 Popov str., Perm) hosted its first visitors offering full scale of Company's services.

25 Customer Care departments were renewed, 10 new telecommunications centers and salons were opened. For the clients' convenience Uralsvyazinform's Central GSM salon has changed its opening hours: now it works all the week round without days off and lunch-time break. In 9 Customer Care departments you will find counters where sales managers offer you cellular telephones and immediate connection. To make it more reachable an integrated GSM directory inquiry service «easy number» 007 was established.

Outdoor advertising and interior designing in the Company's Customer Care departments are performed in identical corporate style. Some Uralsvyazinform's branches arranged information and advertising materials in their Customer Care departments following the design, approved by the Company.

Maximum customer satisfaction in any kind of telecommunications services owing to high quality and level of servicing, flexible pricing plans tailored to individual users as well as sales growth — all these still remain key corporate goals within the next few years.

## SOCIAL PROJECTS

Uralsvyazinform gives special preference to socially disadvantaged people, gifted children, elderly and disabled customers and WW II veterans, as well as to orphan's homes and boarding schools, public health, cultural and sports institutions. The Company supports families and parents of military men fallen in the Chechen Republic. Uralsvyazinform installed telephone lines in their apartments, helped them with infant schools, etc.

Major charity donations were done to social funds.

The Company cooperates with public health and educational institutions, Uralsvyazinform became a guardian to the specialized trade school «Uralskoye Podvorie». This is a unique teaching establishment — a Federal educational center that works with teenagers who found themselves in a difficult position.

The Company takes it as an honorable duty to contribute to the restoration of historic buildings and cultural sites.

In 2001 the Company contributed RUR 2524.5 thous. worth of charity.

Uralsvyazinform took part in realization of different cultural projects of the Perm region and Russian Federation and supported the regional program of physical culture and sports development.

### CHARITY DONATIONS OF THE COMPANY

Total charity donations	INCLUDING THOSE TO						
	Social organizations	Culture and sports	Education and public health	Religious organizations	Telecoms	Military departments	Individuals
RUR thous. 2524,5	579,2	386,6	656,0	600,5	86,3	63,0	152,9

## **INDEPENDENT AUDITORS' OPINION ON THE STATUTORY ACCOUNTING REPORTS OF JSC «URALSVYAZINFORM» FOR THE YEAR FINISHED ON DECEMBER 31,2001**

1. We have audited the attached statutory accounting reports of Joint Stock Company «URALSVYAZINFORM» for the year finished on December 31, 2001. These statutory accounting reports were prepared by the management of the Company in accordance with the Federal Law on Accounting № 129-ФЗ dd. November 21, 1996 and Regulation on Accounting and Reporting in the Russian Federation approved by the decree of the Ministry of Finance of the Russian Federation № 34н dated 29 July 1998. Such statutory accounting reports prepared pursuant to the Federal Law on Accounting № 129-ФЗ dd. November 21, 1996 and Regulation on Accounting and Reporting in the Russian Federation approved by the decree of the Ministry of Finance of the Russian Federation № 34н dated 29 July 1998 differ to a significant extent from those prepared in accordance with International Accounting Standards.

2. Preparation of the statutory accounting reports is the responsibility of management of Uralsvyazinform. Our responsibility as auditors is to express our opinion on these statutory accounting reports trustworthiness based on our audit.

3. Auditing of the statutory accounting reports for reporting years up to 2001 was performed by another auditing company. Its opinion on the trustworthiness of Uralsvyazinform's accounting reports for the year finished on December 31, 2000 was expressed as positive in Auditors' Report dated April 20, 2001. The work done by us did not include the auditing of Uralsvyazinform's statutory accounts for the periods preceding the year finished on December 31, 2001.

4. We conducted our audit in accordance with the Federal Law № 119-ФЗ dd. August 7, 2001 «On auditing activity» and in accordance with Russian Auditing Standards issued by the RF President Audit Committee. The audit was planned and performed to obtain reasonable assurance about the conformity of the statutory accounts, in all material respects, with the Federal Law on Accounting» № 129-ФЗ dd. November 21, 1996 and «Regulations on Accounting and Reporting in the Russian Federation» adopted by the decree of the Ministry of Finance of the Russian Federation № 34н dated 29 July 1998. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory accounting reports. We believe that our audit provides a reasonable basis for our opinion.

5. In our opinion, the statutory accounting reports attached to this report have been properly prepared to present in all material respects the assets and liabilities of the Company as of 31 December 2001 and financial results of its operations for the year ended 31 December 2001 in accordance with the Federal Law on Accounting № 129-ФЗ dd. November 21, 1996 and Regulation on Accounting and Reporting in the Russian Federation, adopted by the decree of the Ministry of Finance of the Russian Federation № 34н dated 29 July 1998.

6. Without qualifying our opinion we draw your attention to the following:

a. As of December 31, 2001 Uralsvyazinform's short-term liabilities exceed its current assets;

b. As of December 31, 2001 there is some uncertainty concerning offset of accounts receivable lasted more than 1 year.

c. Uralsvyazinform's earnings in future would depend on state-regulated tariffs and there is some uncertainty regarding their rates.

In preparation of the accounting reports attached hereto Uralsvyazinform's executive body assumed that Uralsvyazinform does not intend to liquidate or essentially reduce its activities and therefore its liabilities would be repaid in accordance with established procedure.

General Shareholders Meeting held on September 27, 2001 approved the decision to reorganize JSC «Uralsvyazinform» in the form of merging with some Svyazinvest-dependent companies located in the Urals macro-region.

April 23, 2002

Partner Auditor



Vadim A. Balashov

Statutory Auditor



Mikhail S. Khachatryan

Auditor's certificate of competence № 035169



**BALANCE SHEET OF JSC «URALSVYAZINFORM» FOR 2001**

Trustworthiness of the reports is confirmed by independent auditors «ZAO Arthur Andersen»

<b>BALANCE SHEET OF JSC «URALSVYAZINFORM» FOR 2001</b>		RUR thousand	
NARRATIVE		As of 01.01.2001	As of 01.01.2002
<b>ASSETS</b>			
<b>I. NON-CURRENT ASSETS, TOTAL</b>		<b>4708278</b>	<b>5178274</b>
<i>Including:</i>	1. Intangible assets	20499	8
	2. Fixed assets	4586850	4938434
	3. Construction in progress	89049	227015
	4. Income-bearing lease investments	389	376
	5. Long-term financial investments	11491	12441
<b>II. CURRENT ASSETS, TOTAL</b>		<b>499687</b>	<b>825199</b>
<i>Including:</i>	1. Inventories and expenses	128928	308985
	2. Monetary assets	36129	71266
	3. Accounts receivable	334630	444948
	<b>BALANCE</b>	<b>5207965</b>	<b>6003473</b>
<b>LIABILITIES</b>			
<b>III. EQUITY AND RESERVES, TOTAL</b>		<b>3472122</b>	<b>3506981</b>
<i>Including:</i>	1. Charter capital	1049273	1049273
	2. Additional capital	2627525	2626232
	3. Legal reserve	2252	2252
	4. Social funds	17619	16647
	5. Retained earnings of the previous years	15453	16520
	6. Outstanding losses of the previous years	(240000)	(240000)
	7. Retained earnings of the reporting year		36057
<b>IV. LONG-TERM LIABILITIES, total</b>		<b>888345</b>	<b>765115</b>
<i>Including:</i>	1. Bank long-terms loans	13400	13400
	2. Long-term loans	874945	751715
<b>V. SHORT-TERM LIABILITIES, total</b>		<b>847498</b>	<b>1731377</b>
<i>Including:</i>	1. Loans and credits	562562	970535
	2. Accounts payable	277509	749107
	3. Deferred income	7427	11735
	<b>BALANCE</b>	<b>5207965</b>	<b>6003473</b>

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<b>PROFIT AND LOSS ACCOUNT of JSC «Uralsvyazinform» for 2001</b>		RUR thousand	
Narrative		For reporting year	For 2000
1	Sales of goods (work, services)	2167060	1613276
2	Cost of goods (work, services)	(1836201)	(1258780)
3	Gross profit (loss)	330859	354496
4	Operating income	10851	8446
5	Operating expenses	(225382)	(112765)
6	Non-sale profit	186584	209819
7	Non-sale losses	(231775)	(205431)
8	Income (loss) before tax	71137	254565
9	Income tax and other similar compulsory payments	(35080)	(40820)
10	Extraordinary income	288	
11	Extraordinary expenses	(288)	
12	Net profit (retained profit/loss of the reporting year)	36057	213745

General  
Director


V. Rybakin

Deputy General Director  
Chief Accountant


L. Onuchina

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of OAO «Uralsvyazinform»

We have audited the accompanying consolidated balance sheet of OAO «Uralsvyazinform» (a Russian open joint-stock company) and its subsidiaries, hereinafter «the Group», as of December 31, 2001, and the related consolidated statements of income, cash flows and shareholders' equity for the year then ended, expressed in the equivalent purchasing power of the Russian ruble at December 31, 2001. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Group as of December 31, 2000 and for the year then ended, were audited by other auditors whose report dated June 25, 2001, expressed an unqualified opinion.

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

In our opinion, the consolidated financial statements referred to above, in all material respects, give a true and fair view of the financial position of the Group as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Notes 1 and 2 in the financial statements, which discuss the continuing political and economical uncertainties existing for enterprises operating in the Russian Federation, the impact of tariff regulation and the planned reorganization of the Group. These uncertainties will continue to affect the Group's operations and financial condition. The effects of these uncertainties cannot presently be determined, and these consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts or classification of liabilities that may result from the outcome of these uncertainties.

Moscow, Russia August 16, 2002  
(except for the matters discussed in Note 26,  
as to which the date is August 22, 2002)

## OPEN JOINT STOCK COMPANY «URALSVYAZINFORM» CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS OF RUBLES IN TERMS OF PURCHASING POWER  
OF THE RUBLE AT DECEMBER 31, 2001)

CONSOLIDATED BALANCE SHEETS		As of December 31, Notes 2001 2000	
	Notes	2001	2000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS:</b>			
Intangible assets, net	6	13,218	18,726
Property, plant and equipment, net	4,5	3,940,217	3,272,464
Long-term investments, net	7	4,629	8,784
Deferred tax asset	19	318,917	566,694
Other non-current assets		17,748	14,155
<b>Total non-current assets</b>		<b>4,294,729</b>	<b>3,880,823</b>
<b>CURRENT ASSETS:</b>			
Inventories, net	8	190,918	150,610
Trade accounts receivable, net of allowance for doubtful	9	193,106	204,945
Other current assets	10	308,332	82,331
Loans provided by a subsidiary bank		38,218	37,579
Cash and cash equivalents	11	90,563	68,284
<b>Total current assets</b>		<b>821,137</b>	<b>543,749</b>
<b>Total assets</b>		<b>5,115,866</b>	<b>4,424,572</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital-authorized and issued	12	1,049,273	1,049,273
Retained earnings and other reserves		1,384,493	1,076,346
<b>Total shareholders' equity</b>		<b>2,433,766</b>	<b>2,125,619</b>
<b>COMMITMENTS AND CONTINGENCIES</b>			
	22	—	—
<b>NON-CURRENT LIABILITIES:</b>			
Long-term borrowings	13	574,137	793,239
Contributions on equipment	14	154	166
Finance lease payables	5	3,600	—
Long-term deposits in a subsidiary bank		56,036	—
Deferred revenue		16,984	50,370
<b>Total non-current liabilities</b>		<b>650,911</b>	<b>843,775</b>
<b>MINORITY INTEREST</b>			
		13,535	—
<b>CURRENT LIABILITIES:</b>			
Accounts payable and accrued expenses	15	678,219	281,448
Current portion of lease payable	5	5,699	—
Taxes and social payables	16	79,339	89,690
Amount owing to Rostelecom	23	21,399	9,813
Dividends payable		—	10,389
Current portion of long-term debt	13	169,394	310,347
Short-term borrowings	13	909,152	730,613
Demand deposits in a subsidiary bank		96,319	—
Deferred revenue		58,133	22,878
<b>Total current liabilities</b>		<b>2,017,654</b>	<b>1,455,178</b>
<b>Total liabilities and shareholders' equity</b>		<b>5,115,866</b>	<b>4,424,572</b>

## OPEN JOINT STOCK COMPANY «URALSVYAZINFORM» CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS OF RUBLES IN TERMS OF PURCHASING POWER  
OF THE RUBLE AT DECEMBER 31, 2001 EXCEPT EARNINGS PER SHARE DATA)

CONSOLIDATED STATEMENTS OF INCOME		For the years ended December 31	
	Notes	2001	2000
<b>REVENUES</b>	17	2,399,995	2,051,135
<b>OPERATING EXPENSES</b>			
Wages, salaries, other benefits and payroll taxes		(748,037)	(619,225)
Interconnect fees		(165,025)	(154,450)
Materials, repairs and maintenance and utilities		(302,620)	(310,069)
Taxes other than on income		(51,835)	(105,796)
Depreciation		(302,584)	(243,593)
Impairment and other valuation reserves of assets		—	(4,091)
Allowance for doubtful accounts		(8,863)	(20,467)
Loss on disposal of property, plant and equipment		(16,730)	(22,831)
Cost of trading goods and services provided		(69,661)	(49,802)
Other operating expenses		(257,437)	(185,270)
<b>Total operating expenses</b>		<b>(1,922,792)</b>	<b>(1,715,594)</b>
<b>OPERATING PROFIT</b>		<b>477,203</b>	<b>335,541</b>
Income from investments		721	—
Interest expenses, net	18	(163,435)	(290,456)
Finance charge on leased assets	5	(335)	—
Gain (loss) on valuation of investments		(67)	—
Other income (expense), net		(44,368)	15,318
Gain on net monetary position	2	320,669	289,264
<b>INCOME BEFORE TAXATION</b>		<b>590,388</b>	<b>349,667</b>
Income tax (expense) benefit	19	(268,706)	431,401
<b>INCOME BEFORE MINORITY INTEREST</b>		<b>321,682</b>	<b>781,068</b>
Minority interest		(13,535)	(5,938)
<b>NET INCOME</b>		<b>308,147</b>	<b>775,130</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>		<b>0.0352</b>	<b>0.0886</b>
Weighted average number of common shares used in computing basic and diluted earnings per share		8,743,938,000	8,743,938,000

## OPEN JOINT STOCK COMPANY «URALSVYAZINFORM» CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN THOUSANDS OF RUBLES IN TERMS OF PURCHASING POWER  
IN TERMS OF PURCHASING POWER OF THE RUBLE AT DECEMBER 31, 2001)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY				for the years ended December 31
	Share Capital	Retained Earnings and Other Reserves	Total Equity	
At December 31, 1999	1.049.273	322.815	1.372.088	
Net income for the year	—	775.130	775.130	
Dividends for 1999	—	(11.209)	(11.209)	
Dividends for 2000	—	(10.390)	(10.390)	
At December 31, 2000	1.049.273	1.076.346	2.125.619	
Net income for the year	—	308.147	308.147	
At December 31, 2001	1.049.273	1.384.493	2.433.766	

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

## OPEN JOINT STOCK COMPANY «URALSVYAZINFORM» CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS OF RUBLES IN TERMS OF PURCHASING POWER  
OF THE RUBLE AT DECEMBER 31, 2001)

<b>CONSOLIDATED STATEMENTS OF CASH FLOWS</b>		For the years ended December 31	
	2001	2000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before taxation	590,388	349,667	
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Depreciation and amortization	302,584	243,599	
Net loss on disposal of property, plant and equipment	16,730	22,831	
Net loss on investments valuation	67	4,091	
Impairment and other valuation reserves of assets	(13,367)	—	
Interest expense (net)	163,770	275,144	
Decrease in allowance for doubtful accounts	8,863	—	
(Increase) decrease in trade accounts receivable	(18,247)	47,385	
(Increase) decrease in inventories	(70,205)	(25,715)	
(Increase) decrease in advances and other accounts receivable	(268,127)	(17,550)	
(Decrease) increase in accounts payable	229,630	(28,075)	
Decrease in taxes and social security payable	4,330	—	
Exchange rate losses	10,627	—	
Monetary gain	(320,669)	(289,271)	
Interest paid	(172,696)	(323,004)	
Income tax paid	(45,171)	(40,361)	
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>418,507</b>	<b>218,741</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment	(703,638)	(342,015)	
Acquisition of intangible assets	(19)	(3,985)	
Purchase of investments	(5,665)	(13)	
Interest received	8,960	15,218	
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(700,362)</b>	<b>(330,795)</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings	2,047,072	1,531,877	
Repayment of borrowings	(1,709,245)	(1,585,832)	
Repayment of finance lease obligation	(1,870)	—	
Dividends paid	(10,389)	(11,482)	
<b>CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>325,568</b>	<b>(65,437)</b>	
<b>MONETARY EFFECTS ON CASH AND CASH EQUIVALENTS</b>	<b>(10,524)</b>	<b>(10,283)</b>	
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(10,910)</b>	<b>—</b>	
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>68,284</b>	<b>256,058</b>	
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>22,279</b>	<b>(187,774)</b>	
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>90,563</b>	<b>68,284</b>	

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



## OJSC «URALSVYAZINFORM» NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001 (IN THOUSANDS OF RUBLES IN TERMS OF PURCHASING POWER OF THE RUBLE AT DECEMBER 31, 2001)

### 1. GROUP BUSINESS AND RUSSIAN ENVIRONMENT

#### Operations of the Group

Open Joint Stock Company «Uralsvyazinform» (OAO «Uralsvyazinform» or «the Company») and its subsidiaries Closed Joint Stock Bank of Innovations «Pochtobank» and Limited Liability Company «Perminform» (hereinafter referred to as «the Group») are registered in accordance with the laws of the Russian Federation. The registered office of the Group is in the city of Perm in the Russian Federation, Lenina st., 68. The Group possesses licenses for provision of telecommunication services (including local, long-distance and international voice telephony, wireless communication in the 450, 800 and 900 MHz ranges, and paging), television and radio broadcasting and data transmission on the whole territory of Perm region of the Russian Federation, which expire in 2003-2007.

The average number of employees in the Group in 2001 and 2000 was approximately 7,690 persons and 7,761 persons, respectively.

As of December 31, 2001 and 2000 the state-controlled telecommunication holding company OAO «Svyazinvest» owned 53.2% of the Group's voting shares. Domestic and international long-distance telecommunication services are provided by OAO «Rostelecom», a subsidiary of OAO «Svyazinvest».

#### Formation of the Company and its Subsidiaries

On December 22, 1992, the Government of the Russian Federation issued Resolution № 1003 «On Privatization of Communications Enterprises» which launched the privatization of the telecommunications industry of the Russian Federation. According to the State Privatization Plan state-owned enterprises were replaced by the newly incorporated joint stock companies.

The Company was registered in the Russian Federation on April 29, 1994 by the administration of the Lenin district of Perm city in accordance with the Presidential Decree № 721 of July 1, 1992 «On Measures to Reorganize State Enterprises and Groups of State Enterprises into Joint Stock Companies» that approved the privatization plan and assets valuation for the Company. The Company's net assets were evaluated for privatization purposes as of July 1, 1992 in accordance with the Regulation on Accounting and Financial Reporting in the Russian Federation. The Company's financial statements as of the date of privatization were based on the opening balances stated in the financial statements prepared in accordance with Russian accounting principles. In 1995, in accordance with the respective Presidential Decree, all state-owned common shares of the Company were transferred to OAO «Svyazinvest».

As of December 31, 2001 the Group includes subsidiaries Closed Joint Stock Bank of Innovations «Pochtobank» («the Bank») and Limited Liability Company «Perminform» («Perminform») that were acquired during the process of registration and are consolidated. The Bank provides banking services to legal entities and individuals on the territory of Russian Federation. The Bank was registered on April 30, 1992 and started its activity from July 6, 1992. As of December 31, 2001 the Group owns 68% of voting shares (50.02% held directly by the Company and 18% held by Perminform). Perminform provides Internet access for legal entities and individuals on the territory of Perm region of the Russian

Federation. Perminform was registered on the August 6, 1992 by Motovilikha district soviet of people's deputies. As of December 31, 2001, the Company owned 100% of Perminform.

### **Economic and Political Environment**

Over the past decade Russia has undergone substantial political, economic and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current Government is attempting to address these issues; however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result, and as reflected in the Government's debt default and Ruble devaluation in 1998, operations in Russia involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation.

The Group will continue to be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets, and the ability of the Group to maintain or pay its debts as they mature. The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Group's financial statements in the period when they become known and can be reasonably estimated.

## **2. THE GROUP'S MARKET POSITION, LIQUIDITY AND FINANCIAL RESOURCES**

### **Tariff Setting Procedures**

Under Russian anti-monopoly regulations OAO «Uralsvyazinform», being a monopoly enterprise, is subject to government tariff regulation.

Since 1999 tariffs for local telephony services are subject to approval by the RF Anti-Monopoly and Business Support Ministry (MAP). Tariffs for long-distance telecommunication services are approved by the Federal Office for Natural Monopolies (FSEMS) (currently a MAP department). The right to set regional operator tariffs for international telecommunication services rests with OAO «Rostelecom».

Tariffs for telecommunications services are normally set in rubles and also normally they do not cover cost of service provided and the required level of investments for network development. The Western model of tariff setting is not used in Russia, as decision-making in this area is significantly affected by social and political factors as well as the level of inflation.

The management of OAO «Svyazinvest» has taken a number of steps in order to introduce changes to the existing tariff setting procedures. In particular, increases of telecommunication tariffs in June 1999, January 2000, August 2000 and July 2001 were achieved as short-term measures.

## Company Reorganization

*In 2001 the Company's management started the Company's reorganization by obtaining shareholder approval to merge the following regional enterprises of OAO «Svyazinvest» Group:*

- OAO «Electrosvyaz» of Kurgan region,
- OAO «Svyazinform» of Chelyabinsk region,
- OAO «Uraltelecom» of Sverdlovsky region,
- OAO «Yamalelectrosvyaz»,
- OAO «Tyumentelecom»,
- OAO «Khantymansiyskokrtelecom»

*At the extraordinary general meeting on September 27, 2001 the shareholders decided that after the reorganization is completed the combined company will retain the name OAO «Uralsvyazinform». Extraordinary meetings of shareholders of the merging companies where respective decisions were made took place on the following dates:*

OAO «Electrosvyaz» of Kurgan region,	September 24, 2001
OAO «Svyazinform» of Chelyabinsk region,	September 26, 2001
OAO «Uraltelecom» of Sverdlovsky region,	September 25, 2001
OAO «Yamalelectrosvyaz»,	September 27, 2001
OAO «Tyumentelecom»,	September 25, 2001
OAO «Khantymansiyskokrtelecom»	October 12, 2001

The merger is expected to be completed during 2002. The ultimate financial impact of the merger on the Company cannot be determined as of December 31, 2001 and no provision for any liabilities that may arise is reflected in the December 31, 2001 financial statements.

## Availability of Financial Resources

In recent years, telecommunication markets in Russia are characterized by the entrance of a number of new operators offering new value-added services to the customers. This increasingly competitive environment defines a significant need in resources necessary to finance network upgrades. However, existing tariff setting and regulatory procedures put the Group's operating cash flows under significant pressure while the Group's access to external finance resources is limited. Therefore there is a significant level of uncertainty in relation to the Group's liquidity and availability of long-term financing. Consequently, as of December 31, 2001 the Group's current liabilities exceed its current assets by RUR 1,196,517 (2000: RUR 961,965).

Although the Group plans to attract financing from additional sources, the management cannot be assured that financing will be available in the future, and if so, at commercially acceptable rates and under terms that coincide with the long-term nature of the investments to be made. In August 2002 the Group placed long-term bonds with the face value equal to 1 bln. rubles with 3 years maturity

(refer to the Note 26) for the purposes of capital investments financing. Financing was raised at commercially acceptable rates. Also, in the future the Group may have to attract additional financing in foreign currencies. Foreign currency-denominated liabilities bear inherent risks (due to the fluctuations of exchange rates), and the Group does not have hedging instruments to manage and mitigate such risks.

During 2002 the Group plans to use the following financing sources: a) cash at the Group's bank accounts; b) cash provided by operating activities; c) loans provided by Russian credit institutions; d) vendor financing and e) individual's deposits in a subsidiary bank to the extent required and available.

In addition, the Group's management deferred payments for some current operations, and the management believes that such deferrals will be possible in the future should the Group's current assets be insufficient to finance its current expenditures.

Nevertheless the Group's management believes that future cash provided by operating activities will be sufficient to finance its operations. Therefore, the accompanying financial statements were prepared on the basis of the «going concern» principle and no adjustments were made to reflect future possible effects of the above uncertainties.

#### **Quantitative and Qualitative Disclosures about Market Risk**

The Group's significant market risk exposures are interest rate risks and exchange rate risks.

To the extent that the Group's exposure to exchange rate risks is not covered by financial instruments, the Group may have foreign exchange gains and losses. The Group does not enter into transactions to hedge exchange rate risks originating from its operating activities, but uses some elements of hedging by changing cellular communication tariffs following increase of US dollar exchange rate.

#### **Interest rate sensitivity**

The Group's interest rate risk mainly relates to floating rate debt denominated primarily in Euro.

As of December 31, 2001 the Group's total outstanding borrowings amounted to RUR 1,868,974 (in 2000 — RUR 1,857,077), of which approximately RUR 718,614 (in 2000 — RUR 1,038,959) carried floating interest rates. The interest rate on the Group's floating rate debt is determined principally by reference to the London inter-bank offered rate (LIBOR).

The additional financing expense to the Group that would have resulted from a hypothetical, instantaneous and unfavorable change by 100 basis points in the interest rate applicable to these loans is approximately RUR 8,453. The above sensitivity analysis is based on the assumption of an unfavorable 100 basis point movement of the interest rates applicable to each homogeneous category of financial assets and liabilities. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated and assumes the same interest rate movement within each category.

### Exchange rate sensitivity

Foreign currencies, in particular the US dollar, play a significant role in the underlying economics of many business transactions in Russia. The following table summarizes the exchange rate of the ruble to 1 US dollar:

As of	Exchange rate
December 31, 1997	5.96
December 31, 1998	20.65
December 31, 1999	27.00
December 31, 2000	28.16
December 31, 2001	30.14
August 16, 2002	31.56

In addition, the exchange rate of the ruble to 1 Euro was RUR 26.49 and RUR 26.14 as of December 31, 2001 and 2000.

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

The Group does not use financial instruments such as foreign forward contracts, currency options, interest rate swaps or forward rate agreements to manage the above risks.

### Taxation in the Russian Federation

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

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

The Group's management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive taxation issues and the effect could be significant.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation of Consolidated Financial Statements**

The Group 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 which 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 International Financial Reporting Standards.

The preparation of consolidated 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 financial statement date and the reported amounts of revenues and operating costs during the reporting period. The most significant estimates relate to the realizability and depreciable lives of property, plant and equipment, allowance for doubtful accounts and deferred taxation. Actual results could differ from these management estimates.

#### **Principles of Consolidation**

The accompanying consolidated financial statements of the Group include the financial statements of OAO «Uralsvyazinform» and its subsidiaries. Accounting policies of subsidiaries and associated companies are adjusted to conform to IFRS principles adopted by OAO «Uralsvyazinform».

In accordance with IFRS, subsidiaries are defined as the entities over which OAO «Uralsvyazinform» exercises control directly or indirectly and normally holds a voting interest of 50% or more. These consolidated financial statements include assets, liabilities, revenues and expenses of OAO «Uralsvyazinform» and of its subsidiaries, on a line-by-line basis.

Balances and transactions between the parent company and its subsidiaries are eliminated from the consolidated financial statements, as are profits and losses (including those unrealized) from operations between the above companies.

Minority interests in the financial results and equity of subsidiaries which are computed on the basis of common voting and preference non-voting shares of minority shareholders, are shown separately in the consolidated income statement and balance sheet, respectively.

Where entities are not controlled throughout the year, consolidated results include the results of those entities for that part of the year during which control existed.

**ОАО «Uralsvyazinform» has investments in the following subsidiaries**

	2001	2000
Pochtobank (Group's share)	68%	68%
Perminform	100%	100%

Closed Joint Stock Bank of Innovations «Pochtobank» was formed in 1992. In accordance with agreements between the Company and the Bank the latter provides the Company with loans, banking services and financial leases.

All material items of the Bank's financial statements prepared in accordance with the Russian accounting regulations, were adjusted in order to present these statements in accordance with IFRS and the Group's accounting policies. All material transactions between the Company and the Bank were eliminated from the financials statements in the course of consolidation.

Limited Liability Company «Perminform» was registered in 1991. The Bank provides Perminform with banking and financial lease services. Perminform owns 18% of the Bank's shares.

All material items of Perminform's financial statements prepared in accordance with the Russian accounting regulations, were adjusted in order to present these statements in accordance with IFRS and the Group's accounting policies. All material transactions between the Company and Perminform were eliminated from the financial statements in the course of consolidation.

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**Associated Companies**

In accordance with IFRS, associated companies are defined as the entities over which ОАО «Uralsvyazinform» exerts significant influence and normally holds a voting interest of between 20% and 50% and are accounted for using the equity method. The Group's share in the net income/loss of associated companies is included in the consolidated statement of income, and the Group's share in the net assets of associated companies is included in the consolidated balance sheet. Whereas the share of the Group in the net income/loss of associated companies is determined by management not to be material for the consolidated financial statements of the Group, such associated companies are reflected at cost in the accompanying consolidated financial statements.

**Other Investments**

Other investments are recorded at historical cost as fair value could not be reliably determined. In case of investment impairment (other than temporary) its carrying amount is reduced to the recoverable amount. Dividends and interest are recognized when received, respectively. Other investments are classified as long-term if they are expected to be held for longer than one year; otherwise they are classified as current.

### 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 2001 prices (2001=1.0) for the years ended December 31, and the respective conversion factors, are:*

Year	Index	Conversion factor
1992	7,541	314.8
1993	67,846	35.0
1994	211,612	11.2
1995	487,575	4.9
1996	594,110	4.0
1997	659,403	3.6
1998	1,216,401	1.9
1999	1,663,091	1.4
2000	1,997,843	1.2
2001	2,374,037	1.0

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

- all amounts including comparative amounts as of December 31, 2000 are stated in terms of the measuring unit current at December 31, 2001;
- monetary assets and liabilities at December 31, 2001 are not restated as they are already expressed in terms of the monetary unit current at December 31, 2001;
- non-monetary assets and liabilities which are not carried at amounts current at December 31, 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 sheets;
- all items in the consolidated statements of income 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 Group's net monetary position is included in the consolidated statement of income as a gain or loss on net monetary position.

### Comparative Amounts

Comparative amounts for the year 2000 are presented in terms of the measuring unit current at December 31, 2001. Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

### Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost net of depreciation calculated using the straight-line method. As noted above, the statutory accounting data are expressed in rubles without any adjustments for the effect of inflation. Before 1992 the ruble exchange rate was fixed, and, probably, did not present the actual market value. In addition, certain items of property, plant and equipment were purchased centrally through government institutions and then sold to companies at prices fixed by the government. After 1992 several obligatory revaluations of property, plant and equipment were carried out in accordance with the resolution of government institutions.

Cost of property, plant and equipment comprises construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Trade discounts and rebates are deducted in arriving at the construction cost or purchase price. Significant renovations and improvements are capitalized if these extend the life of the asset or significantly increase its revenue generating capacity. Repairs and maintenance are expensed as incurred.

*The adjusted historical values of 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 and constructions	50 years
Analogue switches	20 years
Digital switches	15 years
<i>Cable and transmission devices:</i>	
Duct	15 years
Radio and fixed link transmission equipment	15 years
Vehicles	5 years
Computers, office and other equipment	3-10 years

Construction in progress is recorded as the total of actual expenses incurred by the Group 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.

The Group reviews its long-term assets for impairment in accordance with IAS 36 taking into account such factors as the useful lives of operational assets, forecasted growth of tariffs for communications services and subscriber base growth in Perm region.

### **Property, Plant and Equipment Contributions**

Property, plant and equipment transferred to the Group 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 income statement 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».

### **Investment Properties**

Starting January 1, 2001 the Group defines investment properties in accordance with IAS 40 as properties (land, or buildings and/or sections of buildings, or both) held (by the owner or tenant under financial lease contracts) to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods (services) or for administrative purposes or sale in the ordinary course of business.

The Group recognizes investment property as an asset only when such investment property is expected to generate economic benefits in the future and such investment property can be reliably evaluated.

### **Finance Leases**

Leases of equipment when substantially all the risks and rewards incident to ownership lie with the Group are classified as finance leases.

Property, plant and equipment received under finance lease contracts are included in the Group's fixed assets and recorded at the lower of the present value of lease payments (minimum lease payments) or estimated fair value of fixed assets. This amount is also the initial carrying value of the Group's liabilities under the finance lease.

In calculating the present value of the minimum lease payments the discount factor used is the rate implicit in the lease. Initial direct costs incurred are included into initial carrying value of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the outstanding liability as of the end of each period.

Property, plant and equipment held under finance leases are depreciated on the straight-line basis over the estimated useful lives of such assets using the same principles as for the same category of assets owned by the Group.

**Operating Leases**

Payments under operating leases where the Group does not assume the risks and rewards of ownership are charged to the income statements as rental expenses for the period.

**Intangible Assets**

Intangible assets are recorded at historical cost. Intangible assets are recognized when the Group expects a future inflow of economic benefits from the use of assets and the value of such asset can be reliably estimated. Subsequently intangible assets are reflected at historical cost less accumulated amortization and impairment.

Intangible assets are amortized on a straight-line basis over the estimated useful economic lives of assets. The economic lives are as follows:

Licenses	3-10 years	(actual license periods)
Software	5 years	
Other	3-10 years	

*Software*

The cost of acquisition of software is capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware.

**Inventories**

Inventories, which include duct, spare parts and ancillary equipment, are valued at the lower of cost or net realizable value. Net realizable value is the selling price in the normal course of business less the costs of completion, marketing and distribution. When inventories are expensed to production, cost is determined on the basis of weighted average.

**Receivables**

Trade accounts receivable are shown net of allowance for doubtful accounts. A portion of the Group's accounts receivable are from the State and other public organizations. Collection of these receivables is influenced by political and economic factors which are taken into account when the Group creates a bad debt provision for this category of subscribers.

**Mutual Offset and Barter**

A portion of sales is settled through offset and barter arrangements. These transactions are generally either in the form of direct settlement by goods or services (barter) or through a chain of non-cash transactions involving a number of enterprises. These operations are accounted for at fair value as agreed between the parties.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks and highly liquid investments with original maturity of three months or less with insignificant risks of impairment.

Cash and cash equivalents restricted under contracts are recorded in the Group's balance sheet as long-term assets.

### **Revenues**

Revenues are recognized on the accrual basis as the service is provided, and exclude Value Added Tax («VAT»). Installation and maintenance fees as well as additional payments for early installation are recorded when service is provided.

### **Value Added Taxes**

Under the tax legislation of the Russian Federation entities are allowed to pay value added taxes («VAT») either upon recognition of the related sales or upon receipt of payment for services rendered. Liabilities for VAT accrued by the Group are recorded in these financial statements regardless of the payment schedule chosen by the Group. Input VAT is reclaimable against sales VAT upon payment for purchases. VAT related to purchase transactions which have not been settled at the balance sheet date is recognized on a gross basis as an asset.

### **Foreign Currency**

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

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

### **Borrowing Costs**

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 Group 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.

### **Pension Costs**

#### *State Pension Scheme*

The Group contributes to the Russian Federation state pension scheme as well as to the social insurance and unemployment insurance funds on behalf of its employees. These pension contributions amount to 28% of salary schedule and are expensed as incurred. Total State pension expenses incurred in 2001 were equal to RUR 148,299 (RUR 124,997 in 2000).

### Earnings per Share

Earnings per share are calculated by dividing the net income/(loss) for the period attributable to shareholders by the weighted average number of ordinary shares outstanding during the period. The diluted earnings per share are calculated based on the assumption that all issued financial instruments potentially convertible to ordinary shares are deemed to have been converted. There were no potentially dilutive shares outstanding at December 31, 2001 or 2000.

### Social Commitments

#### *Social infrastructure maintenance*

The Group incurs expenses related to maintenance and renovation of local social assets and provision of employees benefits, including contributions to the construction, development and maintenance of housing and recreation facilities. These costs, including capital expenditures, are expensed as incurred.

#### *Other employee benefits*

The Group provides certain benefits to its personnel such as bonuses, subsidies, one-off allowances for education and medical assistance, etc. These costs are expensed as incurred and are charged to payroll costs in the income statement.

### Financial Instruments

Fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Financial instruments reported as of the balance sheet date include bank deposits and cash on hand, investments available for sale, accounts receivable, accounts payable and loans. All financial instruments are originally recognized at historical cost, i.e. fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Subsequent valuation methods differ depending on the classification of financial instrument. The Group's accounting policy for these financial instruments are disclosed for each item separately.

The Group does not use hedging.

### Income Tax

The historical cost of property, plant and equipment was determined by independent appraisers as of December 31, 2000 for statutory accounting and tax purposes. The results of this valuation were not used to determine the historical carrying value of property, plant and equipment as of January 1, 2001. Property, plant and equipment purchases were recorded at cost of acquisition in rubles adjusted for the effect of inflation from the acquisition date to the reporting date in accordance with IAS 29.

### Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12 «Income Taxes», revised 2000 («IAS 12 (Revised 2000)»).

IAS 12 (Revised 2000) 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 Group'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.

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.

Effective January 1, 2001, in Perm region the income tax rate was changed to 34.5%. Effective January 1, 2002, in Perm region the income tax rate was decreased to 24%. According to IAS 12 (Revised 1996) the amount of deferred tax income/charge relating to changes in tax rates is disclosed separately (see Note 19).

Valuation allowances are provided for deferred tax assets that are not expected to be realized.

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

#### 4. PROPERTY, PLANT AND EQUIPMENT

*The property, plant and equipment as of December 31, 2001 and 2000 include the following:*

	Buildings and construction	Switches and transmission devices	Other	Construction in progress and equipment for installation	Total
<b>COST</b>					
At January 1, 2000	807,800	4,816,352	522,962	220,562	6,367,676
Additions	992	5,658	10,879	440,348	457,877
Transfers	32,037	296,595	47,010	(375,642)	—
Disposals	(10,609)	(41,833)	(17,088)	—	(69,530)
At December 31, 2000	830,220	5,076,772	563,763	285,268	6,756,023
Additions	—	—	—	986,224	986,224
Transfers	58,498	750,251	171,275	(980,024)	—
Disposals	(3,669)	(42,682)	(12,276)	—	(58,627)
At December 31, 2001	885,049	5,784,341	722,762	291,468	7,683,620
<b>ACCUMULATED DEPRECIATION</b>					
At January 1, 2000	335,159	2,578,268	376,905	—	3,290,332
Charge for the year	14,134	188,670	37,123	—	239,927
Disposals	(1,526)	(29,104)	(16,070)	—	(46,700)
At December 31, 2000	347,767	2,737,834	397,958	—	3,483,559
Charge for the year	14,874	228,172	59,539	—	302,585
Disposals	(362)	(31,878)	(10,501)	—	(42,741)
At December 31, 2001	362,279	2,934,128	446,996	—	3,743,403
<b>NET BOOK VALUE</b>					
at December 31, 2000	482,453	2,338,938	165,805	285,268	3,272,464
<b>NET BOOK VALUE</b>					
at December 31, 2001	522,770	2,850,213	275,766	291,468	3,940,217

*Other assets include vehicles, computer equipment and office furniture, fixtures and fittings.*

*Construction-in-progress and equipment for installation are primarily represented by telephone stations and other fixed assets under construction.*

Approximately RUR 1,000,658 of fully depreciated fixed assets continue to be used to provide communication services.

As of December 31, 2001 fixed assets in the amount of RUR 2,458 (RUR 2,458 — in 2000) were not being utilized and no depreciation expense related to these assets is recorded during the period.

As of December 31, 2001 the equipment in the amount of RUR 2,703,780 (RUR 1,878,000 — in 2000) was pledged as collateral under loan agreements (see also Note 13). It was included in the carrying value of property, plant and equipment as of December 31, 2001 and 2000 in the accompanying consolidated financial statements.

As of December 31, 1999 the Group reviewed its long-lived assets for impairment. Indicators of possible impairment of the long-term assets were noted by the management after the August 1998 economic crisis in Russia. In particular, a significant devaluation of ruble resulted in the significant increase of payables to foreign vendors for purchased telecommunication equipment while revenues remained overall at a pre-crisis level as the service tariffs are set in rubles and were not increased in line with the ruble devaluation. As a result the Group reported a loss due to impairment of its production fixed assets in the amount of RUR 1,282,013 during 1999. During 2000-2001 the Group reviewed the recoverability of its long-lived assets on a regular basis and no additional impairment was recognized.

## 5. LEASED ASSETS

In 2001 the Group signed three finance lease contracts with Limited Liability Company «Polikom» and one finance lease contract with Open Joint Stock Company «RTC-Leasing». Lease contracts provide for leasing of vehicles and other equipment, most of which was supplied during 2001. Lease term is 40 months. Depreciation of the leased assets is charged on a straight-line basis.

*As of December 31, 2001 lease obligations include the following:*

In 2002	8,024
In the period 2003-2006	4,317
After 2006	—
<b>Total lease obligations</b>	<b>12,341</b>
Finance charge	(3,042)
<b>Total net present value of lease obligations</b>	<b>9,299</b>
<i>Including:</i>	
<b>Current portion of lease obligations</b>	<b>5,699</b>
<b>Long-term lease obligations</b>	<b>3,600</b>

*As of December 31, 2001 and 2000 the leased assets comprise:*

	2001	2000
Operating equipment	10,686	—
Accumulated depreciation	(1,188)	—
<b>Leased assets, net</b>	<b>9,498</b>	—

The finance charge in 2001 amounted to 335 (nil — in 2000 ) and 2,500 was paid by the Group in settlement of its outstanding lease obligations (nil — in 2000).

**6. INTANGIBLE ASSETS**

*Intangible assets as of December 31, 2001 and 2000 comprise the following:*

<b>INTANGIBLE ASSETS</b>			
	Licenses	Software	Total
<b>COST</b>			
At December 31, 1999	125	1,331	1,456
Additions	1,963	19,487	21,450
Disposals	(8)	(81)	(89)
At December 31, 2000	2,080	20,737	22,817
Additions	187	3	190
Disposals	(1,951)	—	(1,951)
At December 31, 2001	316	20,740	21,056
<b>ACCUMULATED AMORTIZATION</b>			
At December 31, 1999	39	412	451
Charge for the year	21	3,646	3,667
Disposals	(8)	(19)	(27)
At December 31, 2000	52	4,039	4,091
Charge for the year	32	3,715	3,747
Disposal	—	—	—
At December 31, 2001	84	7,754	7,838
Net book value at December 31, 2000	2,028	16,698	18,726
Net book value at December 31, 2001	232	12,986	13,218

**7. LONG-TERM INVESTMENTS**

*The Group's long-term investments as of December 31, 2001 and 2000 are summarized below:*

<b>LONG-TERM INVESTMENTS</b>					
	Activities	Ownership		Carrying value	
		2001	2000	2001	2000
<b>SUBSIDIARY COMPANIES</b>					
000 «Perminform»	Telecommunication	100%	100%	—	5,127
000 «Perm-Telecom»	Telecommunication	100%	100%	1,132	1,132
<b>ASSOCIATED COMPANIES</b>					
«Parma-Pension»	Non-state pension fund	28%	28%	677	677
«Dinamo»	Football club	35%	35%	132	132
Center «Leader»	Consulting services	27%	27%	132	132
<b>OTHER INVESTMENTS</b>					
ZAO «RusleasingSvyaz»	Leasing	7%	7%	618	618
ASO «Ural-AIL»	Insurance	8%	8%	270	270
Center for Problems of Telecommunication Development	Non-commercial partnership	—	—	1,070	—
Other				598	696
<b>Total long-term investments, net</b>				<b>4,629</b>	<b>8,784</b>

Prior to 2001 000 «Perminform» was accounted for on the cost basis rather than consolidated. Commencing January 1, 2001, the accounts of 000 «Perminform» are included in the consolidated accounts of the Group.

All entities where OAO Uralsvyazinform has equity interest are registered in the Russian Federation and have December 31 as the reporting date.



Some subsidiary and associated companies are accounted for at cost in consolidated financial statement since there is no material effect on the Group's consolidated financial statements.

Other financial investments represent investments in the companies incorporated in the Russian Federation and primarily involved in telecommunications, leasing and sport activity. The Group's ownership interest in the investees does not exceed 20%. Group's management appraised recoverability of investments as of December 31, 2001. In this respect impairment was recognized. Amount of impairment loss is 67 (nil — in 2000) and is included in consolidated financial statement as Loss (gain) on valuation of investments.

Dividend income of 721 (nil — in 2000) from other financial investments is included in the income from investments in the accompanying consolidated income statement.

## 8. INVENTORIES

*Inventories as of December 31, 2001 and 2000 comprised the following:*

	2001	2000
Cable	17,003	12,156
Spare parts and materials	80,662	84,434
Goods for resale	93,253	54,020
<b>Total inventories, net</b>	<b>190,918</b>	150,610

Goods held for resale are primarily equipment for cellular communication including mobile telephones.

## 9. TRADE ACCOUNTS RECEIVABLE

*Trade accounts receivable as of December 31, 2001 and 2000 comprised the following:*

	2001	2000
Receivables from businesses	96,180	160,115
Receivables from government companies and organizations	20,315	48,214
Receivables from individuals	141,518	78,802
Less allowance for doubtful accounts	(64,907)	(82,186)
<b>Total trade accounts receivable, less allowance for doubtful accounts</b>	<b>193,106</b>	204,945

The allowance for doubtful accounts as of December 31, 2001 was estimated based on the receivables aging analysis.

**10. OTHER CURRENT ASSETS**

Other current assets as of December 31, 2001 and 2000 comprised the following:

	2001	2000
Prepayments and advances	147,746	54,021
VAT recoverable	86,302	9,131
Other taxes prepaid	24,850	9,330
Notes receivables	38,874	3,619
Other	12,573	11,279
Provision for other assets	(2,013)	(5,049)
<b>Total other current assets</b>	<b>308,332</b>	<b>82,331</b>

**11. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents as of December 31, 2001 and 2000 consisted of the following:

	2001	2000
Cash in hand	16,271	9,163
Cash at bank-Rubles	22,026	29,790
Cash at bank-foreign currencies	23,041	27,973
Short term deposits-Rubles	29,225	1,358
<b>Total cash and cash equivalents</b>	<b>90,563</b>	<b>68,284</b>

**12. SHAREHOLDERS' EQUITY**

The share capital of the Group, authorized, issued and contributed in full, consists of common shares.

<b>SHAREHOLDERS' EQUITY</b>				
	Number of Shares Authorized and Issued		Share Capital	
	2001	2000	2001	2000
Common shares	8,743,938,000	8,743,938,000	1,049,273	912,097
<b>ISSUED AND PAID-UP</b>				
At January 1	—	—	—	—
Increase in nominal value of shares	—	—	—	137,176
<b>At December 31</b>	<b>8,743,938,000</b>	<b>8,743,938,000</b>	<b>1,049,273</b>	<b>1,049,273</b>

The general meeting of the Group's shareholders held on June 15, 2001 approved previously proposed dividends for the year ending December 31, 2000 in the following amount:

**COMMON SHARES**

0.0012 rubles per share	10,390
<b>TOTAL</b>	<b>10,390</b>

As a result of Group's operations in 2001, on April 25, 2002 the Board of Directors recommended distribution of dividends in the amount of 0.0012 rubles per common share for the total amount of RUR 10,493. These dividends were not accrued in the accompanying financial statements for the year 2001.

The basis for determining distributable profit is the Group's net income as determined under Russian statutory accounting regulations. Net income for the year 2001 determined under Russian statutory accounting regulations amounted to RUR 36,057.

**13. SHORT AND LONG-TERM DEBT****Short-Term Borrowings**

As of December 31, 2001 and 2000 short-term borrowings comprised the following:

<b>Short-term loans:</b>	<b>2001</b>	<b>2000</b>
<b>BANK LOANS</b>		
Sberbank	<b>661,811</b>	516,669
Alfa-Bank	<b>82,555</b>	72,882
Other	<b>163,786</b>	139,874
<b>Total bank loans</b>	<b>908,152</b>	729,425
<b>LOANS FROM REGIONAL AUTHORITIES</b>		
Town administration of Gubakha	<b>1,000</b>	1,188
<b>Total loans from regional authorities</b>	<b>1,000</b>	1,188
<b>Total short-term loans</b>	<b>909,152</b>	730,613

During 2001 the Group signed certain loan agreements with Joint Stock Bank Sberbank, a Russian legal entity. Under the terms of these agreements Sberbank was to open credit lines in Dollars and Rubles in the total amount of 1,471 thds. dollars and RUR 653,498. The loans were provided to finance the Group's working capital and were secured by telecommunication equipment with the carrying value of RUR 1,377,045.

During 2001 the Group signed certain loan agreements with Joint Stock Bank Alfa-Bank, a Russian legal entity. Under the terms of these agreements Alfa-Bank was to open credit lines in Euros and Rubles in the total amount of 3,589 thds. Euro and RUR 103,000. The loans were provided to finance the Group's working capital and were secured by telecommunication equipment with the carrying value of RUR 296,337.

Interest rates on short-term loans in 2001 and 2000 vary from 12.5% to 36% and from 15% to 40% per annum, respectively. Loans with the maturity date before August 16, 2002 were repaid by the Group on time.

**Long-Term Loans**

Long-term loans as of December 31, 2001 and 2000 are as follows:

<b>Long-term loans:</b>	<b>2001</b>	<b>2000</b>
<b>BANK LOANS (NOTE (A))</b>		
Vnesheconombank	<b>220,466</b>	287,693
Dresdner Bank	<b>135,400</b>	195,432
Other	<b>8,804</b>	86,246
<b>Total bank loans</b>	<b>364,670</b>	569,371
<b>VENDOR FINANCING (NOTE (B))</b>		
Alkatel	<b>362,740</b>	513,160
<b>Total vendor financing</b>	<b>362,740</b>	513,160
<b>LOANS FROM REGIONAL AUTHORITIES</b>		
Administration of Perm region	<b>12,121</b>	14,401
Administration of Komi-Perm district	<b>4,000</b>	6,654
<b>Total loans from regional authorities</b>	<b>16,121</b>	21,055
<b>Total long-term loans</b>	<b>743,531</b>	1,103,586
<b>Less: current portion of long-term loans</b>	<b>169,394</b>	310,347
<b>Total long-term loans</b>	<b>574,137</b>	793,239

Long-term borrowings are summarized by currency as follows:

	2001		2000	
	Amount in specified currency, thsd.	Thousand Rubles	Amount in specified currency, thsd.	Thousand Rubles
Russian Rubles	24,925	24,925	108,300	108,300
German Marks	—	—	50,350	799,853
Euro	27,127	718,606	6,292	195,432
<b>Total long-term loans</b>		<b>743,531</b>		<b>1,103,585</b>

The Group does not have hedge agreements in respect of its foreign currency obligations or interest risks.

As of December 31, 2001 the weighted average interest rate of long-term borrowings was approximately 5.1% (2000: 6.3%). Rates available to the Group for debt with similar terms and maturities during the year ended December 31, 2001 were not materially different to those as at December 31, 2001.

Loans with floating interest rates are generally linked to LIBOR or FIBOR and, where applicable, the weighted average rates have been estimated based on prevailing interest rates effective during the year ended December 31, 2001.

For certain loans with fixed interest rates the lender bank might unilaterally change the interest rate whenever the change in the Central Bank of the Russian Federation base rate is announced.

Long-term borrowings have the following maturity profile as of December 31, 2001:

<b>a) Long-term bank loans:</b>		<b>b) Long term vendor financing:</b>	
2002	<b>102,952</b>	2002	<b>62,442</b>
2003	<b>21,352</b>	2003	<b>67,260</b>
2004	<b>74,265</b>	2004	<b>66,088</b>
2005	<b>61,703</b>	2005	<b>56,809</b>
2006	<b>39,210</b>	2006	—
2007 and thereafter	<b>65,188</b>	2007 and thereafter	<b>110,141</b>
<b>Total</b>	<b>364,670</b>	<b>Total</b>	<b>362,740</b>

The non-current portions of loans from regional authorities totaling RUR 12,121 are payable in 2003.

#### 14. EQUIPMENT CONTRIBUTIONS

	2001	2000
Carrying value at January 1	166	178
Assets received free of charge	—	—
Amortization	(12)	(12)
<b>Carrying value at December 31</b>	<b>154</b>	<b>166</b>

Equipment contributions represent the unamortized deferred economic benefit from the assets received free of charge from other companies, organizations or individuals.

**15. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses as of December 31, 2001 and 2000 included:

	2001	2000
Trade accounts payable	289,630	115,933
Accounts payable for capital construction	261,213	—
Advances received from subscribers	57,160	56,951
Accrued expenses	2,418	68,385
Wages payable	35,114	20,961
Lease payables	5,699	—
Other payables	26,985	19,218
<b>Total accounts payable and accrued expenses</b>	<b>678,219</b>	<b>281,448</b>

**16. TAXES AND SOCIAL PAYABLES**

Taxes and social payables as of December 31, 2001 and 2000 included:

	2001	2000
VAT	33,686	20,139
Income tax	6,194	32,460
Social security and payroll taxes	27,064	12,482
Property tax	5,416	5,129
Other	6,979	19,480
<b>Total taxes and social payables</b>	<b>79,339</b>	<b>89,690</b>

**17. REVENUES**

Revenues for 2001 and 2000 comprised:

	2001	2000
<b>BY TYPE OF SERVICE:</b>		
<b>Revenues from Subscribers</b>		
Domestic long distance calls	628,066	632,650
Monthly recurring charges for local calls	471,854	387,128
International calls	100,919	95,118
Regular installation charges	113,506	112,401
Radio and television broadcasting	69,876	65,904
Telegraph	23,925	26,102
Mobile and paging services	610,481	358,269
Dedicated and leased lines	17,856	17,776
Data transfer	6,509	11,069
Timed charges for local calls	118,958	108,805
Sale of goods	95,243	66,635
Other sales	137,391	159,053
<b>Total revenues from Subscribers</b>	<b>2,394,584</b>	<b>2,040,910</b>
<b>REVENUES FROM OPERATORS:</b>		
Revenues from foreign operators	—	—
Revenues from national operators	5,411	10,225
<b>Total revenues from operators</b>	<b>5,411</b>	<b>10,225</b>
<b>Total revenues</b>	<b>2,399,995</b>	<b>2,051,135</b>
<b>BY CUSTOMER GROUPS:</b>		
Commercial entities	1,085,225	1,080,140
Residents	1,151,970	823,285
Organizations financed by the State	162,800	147,710
<b>Total revenues from subscribers</b>	<b>2,399,995</b>	<b>2,051,135</b>

Management estimates that approximately 6.3% (or approximately RUR 152,109) of total consolidated revenues in 2001 was transacted through barter (4.5% or approximately RUR 91,400 in 2000).

## 18. INTEREST INCOME, EXPENSE AND SIMILAR ITEMS

*Interest income, expense and similar items as of December 31, 2001 and 2000 comprised:*

	2001	2000
Interest income	8,960	15,007
Interest expense	(172,395)	(305,463)
<b>Total interest income, expense and similar items</b>	<b>(163,435)</b>	<b>(290,456)</b>

## 19. INCOME TAX

*Income tax expense in 2001 and 2000 comprised:*

	2001	2000
Current tax charge	20,933	90,201
Deferred tax charge (benefit)	426,502	(843,166)
Reserve for deferred tax asset	(324,900)	324,900
Effect of change in income tax rate	146,171	8,545
Income tax charge (benefit)	268,706	(419,520)

During the year 2001 the income tax rate was 34.5%.

*Theoretical and actual income tax charges are reconciled as follows:*

	2001	2000
<b>Theoretical tax charge at statutory rate of 34.5% (2000: 30%)</b>	<b>203,684</b>	<b>104,900</b>
<i>Tax effect of permanent differences:</i>		
Non-deductible expenses	53,477	159,457
Non-taxable income	(7,675)	—
Qualifying capital expenditure	(34,943)	(83,738)
Permanent elements of monetary loss	205,886	66,112
Deferred tax movement relating to changes in income tax rate	146,171	8,545
Effect of statutory fixed assets revaluation	—	(684,342)
Release of deferred tax reserve	(273,446)	—
Other	6,515	—
Inflation effect on deferred tax balance at beginning of year	(30,963)	9,546
<b>Total tax charge for the year</b>	<b>268,706</b>	<b>(419,520)</b>

### **Deferred income taxes**

Differences between IFRS and statutory tax regulations give rise to temporary differences between the carrying value of assets and liabilities as presented in consolidated financial statements and their tax base. Tax effects of the movement on these temporary differences are recorded at the rate of 24% and 34.5% in 2001 and 2000, respectively.

<b>INCOME TAX</b>					
	2001	Movement in year	2000	Movement in year	1999
<b>TAX EFFECTS OF FUTURE TAX DEDUCTIBLE ITEMS (TEMPORARY DIFFERENCES):</b>					
Property, plant and equipment	296,268	(550,054)	846,322	846,322	—
Accounts payable	580	(24,859)	25,439	(27,819)	53,258
Accounts receivable	16,061	9,217	6,844	6,737	107
Inventories	2,196	2,196	—	—	—
Investment valuation difference	1,869	1,869	—	—	—
Other	3,574	3,574	—	—	—
Reserve for deferred tax	—	324,900	(324,900)	(324,900)	—
Gross deferred tax asset	320,548	(233,148)	553,696	500,331	53,365
<b>TAX EFFECTS OF FUTURE TAX LIABILITY ITEMS (TEMPORARY DIFFERENCES)</b>					
Property, plant and equipment	—	—	—	9,961	(9,961)
Inventories	(1,631)	1,383	(3,014)	(10)	(3,004)
Accounts receivable	—	—	—	2,078	(2,078)
Investment valuation difference	—	352	(352)	1,649	(2,001)
Other	—	(16,364)	16,364	(4,410)	20,774
Gross deferred tax liability	(1,631)	(14,629)	12,998	9,268	3,730
<b>Net deferred tax asset (liability)</b>	<b>318,917</b>	<b>(247,777)</b>	<b>566,694</b>	<b>509,599</b>	<b>57,095</b>

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The most significant factor contributing to the deferred tax asset in the balance sheet as of December 31, 2001 and 2000 and the deferred tax charge in the income statement for the years then ended, is the carrying value of the Group's property, plant and equipment as of December 31, 2001. In accordance with IFRS, property, plant and equipment has been presented in the rubles current as of December 31, 2001. The Company has performed a revaluation of the fixed assets as of January 1, 2001 that has increased the statutory and taxable base of the property, plant and equipment over property, plant and equipment recognized in accordance with IFRS as of December 31, 2001. This resulted in a significant temporary taxable difference which is the major contributor to the deferred tax asset recorded in these consolidated financial statements as of December 31, 2000. This difference has decreased during 2001 resulting in the deferred tax charge in the income statement for the year ended December 31, 2001.

## 20. NON-STATE PENSION COSTS

In 2001 the Company signed the agreement for non-budgetary pension scheme with its associate company «Parma Pension». According to the agreement the Company makes monthly contribution in the amount not less than 50% of the minimal state pension (50 Rubles as of December 31, 2001) and not more than 10,000 Rubles per year per each employee, qualified to participate in the plan. A special Committee supervised by the Company approves retirees that would participate in the plan as well as the date of pension payments commencement, amount, duration and timing of the payments for each employee.

The Group's obligations under the plan were not significant as of December 31, 2001 as a limited number of retirees have been approved to participate in the plan.

## 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments not carried at fair value are cash and cash equivalents, accounts receivable, other current assets, other non-current assets, accounts payable, other current payables, long-term borrowings and held-to-maturity investments.

The carrying value of cash and cash equivalents approximates their fair value due to short-term maturity of these financial instruments. Similarly, the carrying values of receivables and payables which are subject to normal trade credit terms approximate their fair values. The carrying values of long term investments net of impairment reserve approximate their fair values.

Fair value of financial assets and liabilities carried at cost or amortized cost approximated those at the balance sheet date.

The Group adopted IAS 39 at January 1, 2001. In accordance with the transitional provisions of that standard, the comparative financial statements for periods prior to the effective date of the standard have not been restated.

Disclosure of the nature of financial instrument and their significant terms and conditions that could affect the amount, timing and certainty of future cash flow is presented in the respective Notes to these financial statements, when applicable.

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## 22. COMMITMENTS AND CONTINGENCIES

### Capital Investment Commitments

As of December 31, 2001 the total contractual commitments of the Group for capital investments in modernization and expansion of the its network were 461,080 (in 2000: 78,891). Management believes that these investments will be mostly financed by vendor financing, bank loans and other borrowings.

### Licenses

The major part of the Group's revenues is derived from operations conducted pursuant to licenses granted by the Ministry of the Russian Federation for Communications and Informatization. The principal operating and supplementary licenses expire in years ranging from 2003 to 2007. Management has no reason to believe that these licenses will not be renewed on the same terms or that any licenses will be suspended or terminated.

However, any termination or failure to renew all or any of these licenses may have a significant effect on the future financial condition and operations of the Group.

### Land

As a result of the privatization carried out in 1994 the government lost control over OAO «Uralsvyazinform», and the Group, in turn, lost the privileges for the use of land. In the period from privatization to December 31, 2001 the Group incurred some expenses related to the use of land on which the Group's property, plant and equipment are located. At this time the management is unable to estimate the impact of future legislation regarding the use of such state-owned land by the Group.

### **Taxation**

As of December 31, 2001, the Group provided for tax contingencies in the amount of RUR 9,057 (2000: RUR 37,981).

### **Insurance**

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 in the Russian Federation. The Group has significant but not full insurance coverage for its network equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents with the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial condition.

### **Claims**

The Group is subject to several proceedings arising in the normal course of business. As of December 31, 2001 provision for any relevant contingencies was not recorded by the Group. As of December 31, 2000 the Group did not create any provisions for such losses.

### **Industry regulations**

The Russian telecommunication industry is currently being reformed. Potential tariff changes and the ongoing restructuring of OAO Svyazinvest may significantly affect the Group's operations. Currently the management is unable to assess the impact of potential changes in the industry regulation on the financial condition and operations of the Group.

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## **23. RELATED PARTIES**

### **OAO Svyazinvest**

As described in Note 1, the parent company of OAO «Uralsvyazinform» is the open joint stock company «Svyazinvest» (OAO Svyazinvest) with the controlling interest (75% minus 1 share) being owned by the Russian Federation.

It is critical for the Russian Federation to have an efficient telecommunication and data transfer network due to numerous reasons including economic, strategic and national security issues. The Government has and may be expected to continue to exercise significant influence over the operations of the OAO «Svyazinvest» and the Company, a subsidiary of OAO «Svyazinvest».

The Government's influence is not confined to its shareholding in OAO «Svyazinvest». It has general authority to regulate domestic long distance and local tariffs. In addition, the RF Ministry for Communications and Informatization has control over the licensing of providers of telecommunications services.

### **OAO «Rostelecom»**

OAO «Rostelecom», subsidiary of OAO «Svyazinvest», provides long distance and international services in the Russian Federation. The Group has agreements with OAO Rostelecom for domestic and international

long distance traffic. The respective costs of RUR 76,827 (2000: RUR 85,138) are included in Interconnection charges in the accompanying income statement. As of December 31, 2001, the Group has an outstanding payables due to OAO Rostelecom of RUR 21,399 (2000: RUR 9,813) reflected as Current liabilities in the accompanying balance sheet.

### **Transactions with State-Financed Organizations**

State organizations are a significant element in the Group's customer base, purchasing services both directly through numerous authorities and indirectly through their affiliates and commercial organizations controlled by them. Entities financed by the State are users of the Group's network. These entities lease lines for which they are charged lower tariffs, approved by the MAP, than those charged to other customers. In addition, the Government may by law require the Group to provide certain services to its entities in connection with national security and the detection of crime.

Government subscribers (not including commercial organizations controlled by the state) accounted for approximately 7.1% (2000: 7,2%) of service revenues for the year ended 31 December 2001. As at December 31, 2001 amounts due from Government subscribers (net of provision for doubtful debts) were RUR 19,662 (2000: RUR 35,914).

### **Group's Investees**

During 2001 and 2000 the Group conducted the following operations with its investees: payments for pension schemes, advertisement expenses, security services, rent and communication services.

000 PRTK «Ural-Inform TV» provided advertising services to the Group. Total amount of services provided in 2001 was RUR 3,452. The Group provided services totalling RUR 758 to 000 PRTL «Ural-Inform TV» in 2001, including:

- Rent: RUR 525;
- communication services: RUR 220;
- canteen services: RUR 13.

000 OP «Ohrana Svyazi» provided security services to the Group. Total amount of services provided in 2001 was RUR 32,537. The Group provided rental space for the total amount 72 to 000 OP «Ohrana Svyazi» in 2001.

The Group contributed RUR 5,668 to the Non-state Pension Fund «Parma» during 2001.

### **Directors' Remuneration**

Directors total remuneration approximated RUR 16,854 in 2001 and RUR 11,829 in 2000. Accrued liabilities are included in accounts payable in amount RUR 183 and RUR 125 for 2001 and 2000, respectively.

Shares held by members of the Board of Directors are 841,197,720 shares as of December 31, 2001 (2000: 815,039,074 shares).

No loans have been granted to Directors.

## 24. SEGMENT REPORTING

The Group provides telecommunication (wireline and wireless) services and banking services in the Perm region. Management considers that the Group operates in one geographical segment. Banking services are not material (less than 10% of total operations) for the Group. Certain services provided between the wireline and wireless segments are not invoiced, and accordingly not recognized, between the branches of the Company performing such services. *During 2001 and 2000 information about business segments was as follows:*

SEGMENT REPORTING										
	Wireline communications services		Wireline communications services		Other operations		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
<b>REVENUE</b>										
External sales	1,556,880	1,615,574	705,724	424,915	137,391	10,646	—	—	2,399,995	2,051,135
Inter-segment sales	—	—	—	—	31,999	16,574	(31,999)	(16,574)	—	—
Total revenue	1,556,880	1,615,574	705,724	424,915	169,390	27,220	(31,999)	(16,574)	2,399,995	2,051,135
<b>RESULT</b>										
Segment result	248,419	238,418	532,476	263,334	9,733	(10,390)	—	—	790,628	491,363
Unallocated corporate expenses									(313,425)	(155,821)
Operating profit									477,203	335,541
Interest expense and similar items									(163,770)	(290,456)
Gain/loss on financial investments									721	—
Other income/ /(expenses) (net)									(44,435)	15,318
Monetary gain/loss									320,669	289,264
Income tax expense (benefit)									(268,706)	431,401
Minority interest in subsidiaries									(13,535)	(5,938)
Net income									308,147	775,130
<b>OTHER INFORMATION</b>										
Segment assets	3,437,142	2,912,663	354,139	290,492	139,383	145,638			3,930,665	3,348,793
Unallocated corporate assets									1,185,201	1,075,779
Consolidated total assets									5,115,866	4,424,572
Segment liabilities	63,453	63,535	14,550	3,231	—	—			78,003	66,766
Unallocated corporate liabilities									2,590,562	2,232,186
Consolidated total liabilities									2,668,565	2,298,952
Capital expenditure	475,980	284,647	309,355	144,410	190,204	11,302				
Depreciation	247,056	165,899	20,082	15,579	35,446	62,115				

## 25. SUBSEQUENT EVENTS

### Dividends

The board of Directors of OAO «Uralsvyazinform» proposed dividends for the year 2001 in the amount of RUR 10,493 (0,0012 rubles per common share). Dividends were approved at the annual general meeting of shareholders.

### Service tariffs

Starting January 1, 2002 tariffs on local calls were increased by approximately 33%.

### Introduction of EURO

Since January 1, 2002 the European Union has introduced Euro as a common currency for all member states. Consequently, all Group's current contracts expressed in local European currencies were amended to Euro at the fixed exchange rates of these currencies into Euro.

The Group is not exposed to any additional currency risks as a consequence of such changes in the contract currencies.

## 26. ISSUE OF BONDS

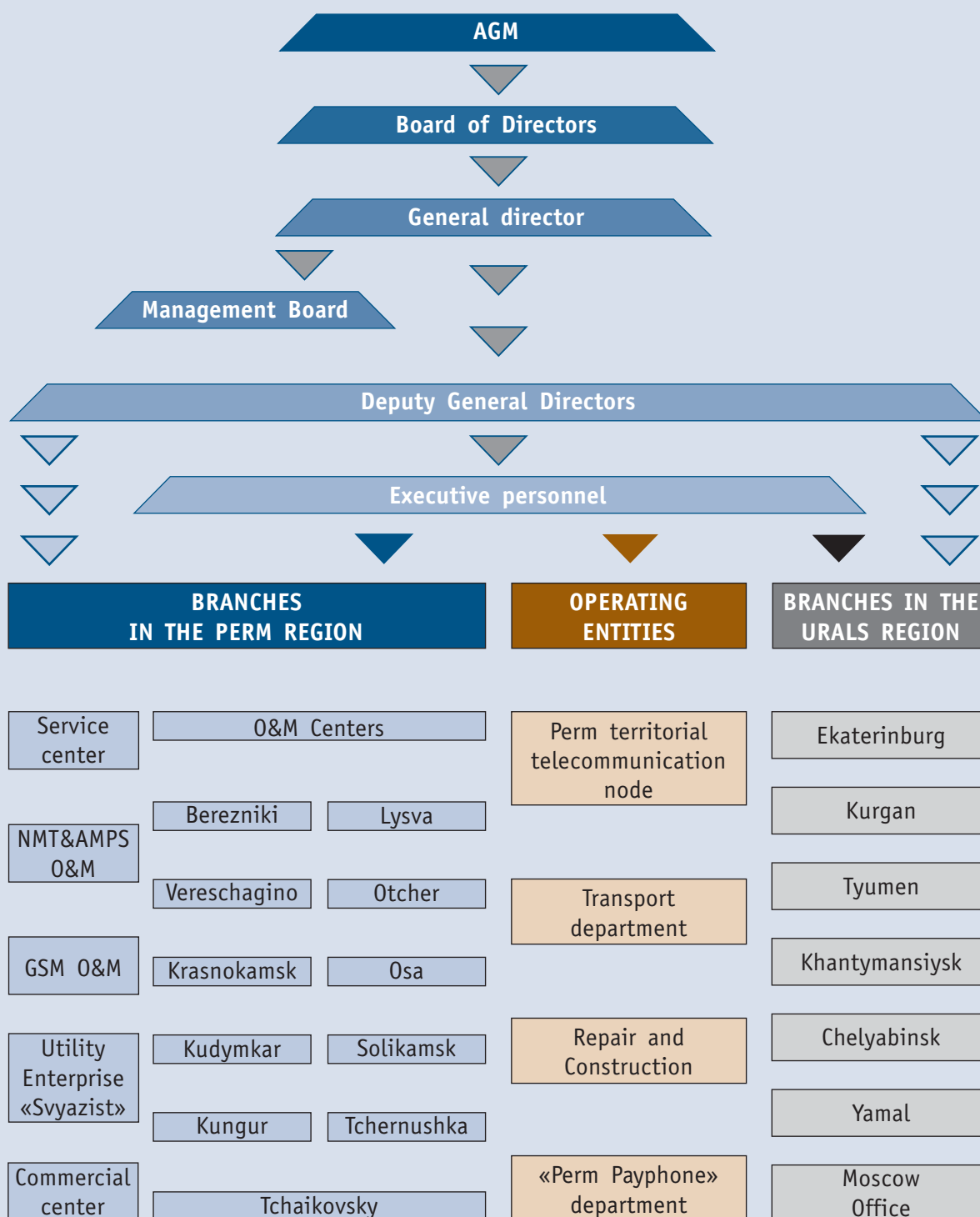
On August 22, 2002 the Company issued coupon non-convertible debentures with a nominal value of 1,000,000. These debentures mature 1080 days after the placement. The debentures accrue interest at the rate of 17.5% per annum that is paid quarterly.

Management of the Company believes that the cash received from the debentures issuance will be used for repayment of short-term loans and payments to vendors of telecommunication equipment.



## ORGANIZATIONAL STRUCTURE OF JSC «URALSVYAZINFORM»

In 2001 Uralsvyazinform's organization underwent some changes. The number of the Company branches in the Perm region was reduced by 7. As of 1 January 2002 Uralsvyazinform had 16 Perm branches, 5 structural departments and 6 Urals macro-regional branches.



## BOARD OF DIRECTORS

### **Anton I. Osipchuk**

Chairman of the Board of Directors,  
First Deputy General Director of OAO «Svyazinvest»,

### **Vladimir I. Rybakin**

Vice-chairman of the Board of Directors  
General Director of JSC «Uralsvyazinform»

## Members of the Board of Directors

**Vadim E. Belov** — Deputy General Director of OAO «Svyazinvest»

**Alla B. Grigorieva** — Deputy Director of Division, Chief of Department, Corporate Management Division  
OAO «Svyazinvest»

**Yuri A. Bilibin** — Assistant to the General Director of OAO «Svyazinvest»

**Vladimir A. Zhuk** — Chairman of the Regional Communications Trade Union Committee

**Leonid M. Perminov** — shareholder in Uralsvyazinform

## MANAGEMENT BOARD OF JSC «URALSVYAZINFORM»

Chairman — **Vladimir I. Rybakin**

### MEMBERS:

- **Valery G. Bakov** — Deputy General Director-Perm Territorial Telecommunications Node Director
- **Andrey Y. Belobokov** — Deputy General Director (Strategic Planning)
- **Oleg I. Bukharinov** — Deputy General Director-Director of Service Center
- **Vladimir K. Zavidov** — Berezniki Branch Director
- **Nadezhda A. Kalashnikova** — Head of Legal Department
- **Valery N. Kovylyaev** — Kydimkar Branch Director
- **Sergey I. Kuzyaev** — Deputy General Director for Finance
- **Lidia V. Onuchina** — Deputy General Director-Chief Accountant
- **Oleg P.Orlov** — Deputy General Director for Capital Construction
- **Alexander A. Palkin** — Lysva Branch Director
- **Victor P. Sanachiev** — 1<sup>st</sup> Deputy General Director
- **Anatoly Y. Ufimkin** — Chelyabinsk Macro-Regional Branch Director
- **Alexander P. Fedoseev** — Deputy General Director for Technologies and Investments
- **Vladimir G. Chukavin** — Kungur Branch Director



## ADMINISTRATION OF URALSVYAZINFORM

<b>Vladimir I. Rybakin</b>	— General Director
<b>Victor P. Sanachiev</b>	— 1 <sup>st</sup> Deputy General Director
<b>Valery G. Bakov</b>	— Deputy General Director (Director of Perm Territorial Telecommunications Node)
<b>Andrey Y. Belobokov</b>	— Deputy General Director (Head of Strategic Planning Dept.)
<b>Alexey Bodrashov</b>	— Deputy General Director (Director of Moscow Office)
<b>Oleg I. Bukharinov</b>	— Deputy General Director (Director of Service Center)
<b>Alexander V. Vlassov</b>	— Deputy General Director (Director for Cellular Technologies)
<b>Vyacheslav N. Davydkin</b>	— Deputy General Director for Marketing
<b>Sergey I. Kuzyaev</b>	— Deputy General Director for Finance
<b>Larissa V. Nagovitsina</b>	— Deputy General Director for Personnel
<b>Antonina F. Nevostrueva</b>	— Deputy General Director for PR (Head of Press—center)
<b>Lidia V. Onuchina</b>	— Deputy General Director (Chief Accountant)
<b>Oleg P. Orlov</b>	— Deputy General Director for Capital Construction
<b>Alexander M. Osipov</b>	— Deputy General Director for O&M—Head of Telephone Networks Operation Dept
<b>Vladimir V. Popov</b>	— Deputy General Director for International Relations
<b>Alexander P. Fedoseev</b>	— Deputy General Director for Technologies and Investments

**ОАО «Уралсвязьинформ»**

**Адрес:**

614096, г. Пермь, ул. Ленина, 68

**Телефон** (3422) 34-12-00.

**Факс** (3422) 34-33-36.

**Электронная почта:** [usi@uralsviazinform.com](mailto:usi@uralsviazinform.com)

**Интернет:** [www.uralsviazinform.ru](http://www.uralsviazinform.ru)  
[www.uralsviazinform.com](http://www.uralsviazinform.com)

**Дизайн, пре-пресс**

Рекламное агентство «Стиль-МГ»

**Адрес:** Россия, 614990, ул. Дружбы, 34.

**Телефон** (3422) 48-65-22.

**E-mail:** [style@perm.raid.ru](mailto:style@perm.raid.ru)

**Печать:**

**JSC «Uralsviazinform»**

**Company address:**

68 Lenin st., Perm 614096, Russia

**Ph.:** +7 3422 34 12 00

**Fax:** +7 3422 34 33 36

[usi@uralsviazinform.com](mailto:usi@uralsviazinform.com)

[www.uralsviazinform.ru](http://www.uralsviazinform.ru)

[www.uralsviazinform.com](http://www.uralsviazinform.com)

**Design, pre-press & print**

Style-MG limited & Zvezda

34 Druzba st., 614990, Russia

**Ph:** +7 (3422) 48-65-22.

[style@perm.raid.ru](mailto:style@perm.raid.ru)