OAO MOSCOW CITY TELEPHONE NETWORK AND SUBSIDIARIES

Independent Auditors' Report

Consolidated Financial Statements
Years Ended December 31, 2001, 2000 and 1999

OAO MOSCOW CITY TELEPHONE NETWORK AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the shareholders of OAO Moscow City Telephone Network:

We have audited the accompanying consolidated balance sheets of OAO Moscow City Telephone Network ("MGTS") and its subsidiaries (collectively – the "Group") as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

As discussed in Note 4 to the consolidated financial statements, the financial statements have been restated effective January 1, 2000.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

May 31, 2002

OAO MOSCOW CITY TELEPHONE NETWORK AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2001 AND 2000
(in US dollars and in thousands)

	2001	2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 5)	31,270	21,111
Accounts receivable, advances and taxes receivable, net (Note 6)	61,557	40,124
Inventories	12,330	14,430
Short-term investments (Note 7)	861	3,418
Deferred income taxes, net (Note 20)	3,588	5,851
Total current assets	109,606	84,934
NON-CURRENT ASSETS:		
Property, plant and equipment, net (Note 8)	838,697	766,688
Advance payments for property, plant and equipment	2,811	5,077
Goodwill, net (Note 9)	22,026	-
Long-term investments (Note 10)	74,018	75,002
Advances to minority shareholders of subsidiary	-	12,111
Deferred income taxes, net (Note 20)	35,942	42,320
Other long-term assets	2,848	3,457
Total non-current assets	976,342	904,655
TOTAL ASSETS	1,085,948	989,589
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Debt maturing within one year (Note 12)	69,008	175,174
Accounts payable, taxes payable and other accrued liabilities (Note 11)	46,190	41,164
Deferred revenue (Note 13)	34,427	35,349
Total current liabilities	149,625	251,687
NON-CURRENT LIABILITIES:		
Long term debt (Note 12)	157,993	28,042
Deferred revenue (Note 13)	54,915	60,634
Postretirement benefits (Note 24)	6,810	3,764
Property, plant and equipment contributions	48,388	37,987
Deferred income taxes (Note 20)	10,226	14,713
Total non-current liabilities	278,332	145,140
TOTAL LIABILITIES	427,957	396,827
MINORITY INTERESTS IN EQUITY OF SUBSIDIARIES	56,457	43,275
SHAREHOLDERS' EQUITY:		
Preferred stock, 20 Ruble nominal, 15,965,850 shares authorized, issued and outstanding (Note 14)	12,346	12,346
Common stock, 20 Ruble nominal, 79,829,200 shares authorized, issued and outstanding (Note 14)	61,502	61,502
Retained earnings	463,431	411,384
Additional paid-in capital	35	35
Other additional capital (Note 15)	64,220	64,220
Total shareholders' equity	601,534	549,487
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,085,948	989,589

See notes to consolidated financial statements.

OAO MOSCOW CITY TELEPHONE NETWORK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999
(in US dollars and in thousands except for earnings per share)

	2001	**2000**	**1999 Restated**
Operating revenues (Note 17)	387,636	314,693	187,913
Operating expenses (Note 18)	(264,376)	(202,561)	(132,194)
OPERATING PROFIT	123,260	112,132	55,719
Other expenses, net (Note 19)	(22,710)	(28,211)	(17,794)
PROFIT BEFORE INCOME TAXES AND MINORITY INTEREST	100,550	83,921	37,925
Income taxes (Note 20)	(30,682)	677	(2,428)
Minority interest	(14,802)	(11,741)	-
PROFIT BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	55,066	72,857	35,497
Extraordinary gain on early extinguishment of debt, net of tax of $2,656 (Note 12)	-	-	6,197
PROFIT BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	55,066	72,857	41,694
Cumulative effect of accounting change, net of tax of $11,153 (Note 4)	-	(63,442)	-
NET PROFIT	**55,066**	**9,415**	**41,694**
Earnings per common share before extraordinary item and cumulative effect of accounting change, diluted and basic	0.67	0.87	0.36
Extraordinary gain on early extinguishment of debt	-	-	0.08
Cumulative effect of accounting change (Note 4)	-	(0.79)	-
Earnings per common share, diluted and basic (Note 22)	**0.67**	**0.08**	**0.44**
Weighted average number of common shares outstanding adjusted for share split in 2000 (Note 22)	79,829,200	79,829,200	79,829,200

Pro forma amounts assuming SAB 101 is applied retroactively as adjustment to comparative figures

	2001	**2000**	**1999 Restated**
Operating revenues	387,636	314,693	197,363
Profit before income taxes and minority interest	100,550	83,921	45,969
Profit before extraordinary item and cumulative effect of accounting change	55,066	72,857	43,541
Net profit	55,066	9,415	49,737
Earnings per common share	0.67	0.08	0.52

See notes to consolidated financial statements.

OAO MOSCOW CITY TELEPHONE NETWORK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999
(in US dollars and in thousands)

	2001	2000	1999 Restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net profit	55,066	9,415	41,694
Adjustments to reconcile net profit to cash provided by operating activities			
Allowance for doubtful accounts	1,313	(97)	87
Depreciation and amortization	63,992	44,188	28,561
Currency translation (gain)/loss	(3,375)	9,888	17,713
(Income)/loss from affiliates	(2,287)	4,012	(9,517)
Deferred revenue amortization	(735)	(735)	(1,425)
Deferred taxes	4,154	(25,620)	671
Post-retirement benefits	3,046	(1,532)	2,267
Gain on disposal of property, plant and equipment	(311)	(1,652)	-
Gain on disposal of long-term investments	(1,195)	(3,787)	(2,278)
Minority interest	14,802	11,741	-
Extraordinary gain on early extinguishment of debt	-	-	(8,853)
Cumulative effect of accounting change, net of tax $11,153 (Note 4)	-	63,442	-
Changes in certain assets and liabilities			
Accounts receivable, advances and taxes receivable	(17,942)	2,332	1,423
Inventories	2,597	249	2,517
Other assets	-	76	12,732
Accounts payable, taxes payable and other accrued liabilities	4,424	16,481	1,929
Deferred revenue	(6,677)	3,131	1,517
Net cash provided by operating activities	116,872	131,532	89,038
CASH FLOWS FROM INVESTING ACTIVITIES:			
Dividends received from investees	1,721	-	1,935
Acquisition of subsidiary	(11,563)	5,137	-
Purchases of property, plant and equipment	(94,603)	(83,491)	(53,552)
Advances to minority shareholders	-	(12,111)	-
Proceeds from disposal of property, plant and equipment	1,979	4,597	-
Purchases of long-term investments	-	(4,424)	(542)
Redemptions of promissory notes, net	4,468	4,982	265
Cash received from sale of investment in affiliates	1,196	2,300	2,052
Net cash used in investing activities	(96,802)	(83,010)	(49,842)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	166,544	38,085	86,708
Repayments of borrowings	(155,065)	(63,093)	(99,094)
Repayments of vendor financing	(8,885)	(17,924)	(25,733)
Payments on capital leases	(5,243)	-	-
Dividends paid	(4,996)	(1,344)	(11)
Net cash used in financing activities	(7,645)	(44,276)	(38,130)
EFFECTS OF CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	(2,266)	(725)	(6,815)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	10,159	3,521	(5,749)
CASH AND CASH EQUIVALENTS, beginning of year	21,111	17,590	23,339
CASH AND CASH EQUIVALENTS, end of year	31,270	21,111	17,590

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999 (continued)
(in US dollars and in thousands)

	2001	2000	1999 Restated
SUPPLEMENTAL INFORMATION:			
Cash paid for interest net of amounts capitalized	30,825	15,970	12,205
Income taxes paid	22,640	20,684	1,043
NON CASH INVESTING AND FINANCING ACTIVITIES:			
Assets contributed by shareholder (Note 25)	-	312	6,376
Property, plant and equipment received free of charge	12,736	6,428	13,489
Equipment acquired through vendor financing (Note 12)	18,314	11,819	33,894
Equipment acquired under capital leases (Note 12)	13,217	-	-

See notes to consolidated financial statements.

OAO MOSCOW CITY TELEPHONE NETWORK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999
(in US dollars and in thousands)

	Preferred stock Shares	**Amount**	**Common stock Shares**	**Amount**	**Additional paid-in capital**	**Other additional capital**	**Retained earnings**	**Total**
Balances at January 1, 1999 (restated)	**15,965,850**	**166**	**79,829,200**	**601**	**35**	**56,946**	**437,949**	**495,697**
Issue of shares	-	12,180	-	60,901	-	-	(73,081)	-
Investment contributions	-	-	-	-	-	6,962	-	6,962
Net profit (restated)	-	-	-	-	-	-	41,694	41,694
Dividends on preferred shares	-	-	-	-	-	-	(41)	(41)
Balances at December 31, 1999 (restated)	**15,965,850**	**12,346**	**79,829,200**	**61,502**	**35**	**63,908**	**406,521**	**544,312**
Investment contributions	-	-	-	-	-	312	-	312
Net profit	-	-	-	-	-	-	9,415	9,415
Dividends on preferred shares	-	-	-	-	-	-	(2,686)	(2,686)
Dividends on common shares	-	-	-	-	-	-	(1,866)	(1,866)
Balances at December 31, 2000	**15,965,850**	**12,346**	**79,829,200**	**61,502**	**35**	**64,220**	**411,384**	**549,487**
Net profit	-	-	-	-	-	-	55,066	55,066
Dividends on preferred shares	-	-	-	-	-	-	(1,218)	(1,218)
Dividends on common shares	-	-	-	-	-	-	(1,801)	(1,801)
Balances at December 31, 2001	**15,965,850**	**12,346**	**79,829,200**	**61,502**	**35**	**64,220**	**463,431**	**601,534**

Number of shares was restated for the share split (Note 14).

Dividends paid per share in 2000 were $0.02 (1999: $Nil) on the common shares and $0.17 (1999: $Nil) on the preferred shares.
The Board of Directors recommended to the shareholders to declare 2001 dividends of $0.02 on the common shares and $0.07 on the preferred shares.

See notes to consolidated financial statements.

1. THE GROUP

Description of Business - OAO Moscow City Telephone Network ("MGTS") operates one of the largest metropolitan communication networks in the world. Founded in 1882 and nationalized in 1917, MGTS was privatized and became an open joint stock company in 1994. MGTS provides telecommunication services to residential subscribers, state-financed institutions and businesses within the city of Moscow.

The Group has two reportable segments, (1) Wireline Voice Phone Communications and (2) Data Transmission and Wireless Communications (see Note 21 of the consolidated financial statements for additional information on segments). The Wireline Voice Phone Communications segment is represented by operations of MGTS while the Data Transmission and Wireless Communications segment is represented by the operations of its subsidiary, MTU-Inform (which itself is a group of seven entities as of December 31, 2001). The Group's ultimate holding company is AFK Sistema.

The principal activities of the significant subsidiaries of the Group are as follows:

Operating Entities	Short Name	Principal activity
ZAO "Company MTU-Inform"	MTU-Inform	Providing direct lines, digital channels and blocks of phone numbers to other telecom operators; providing data transmission services.
OAO "Personal Communications"	PeCom	Telecommunication services to residential subscribers, Government and businesses of Moscow metropolitan area in CDMA standard.
ZAO "MTU-Intel"	MTU-Intel	An internet service provider to the consumer and business markets within the Moscow region.
ZAO "PTT Teleport Moscow"	PTT Teleport	An internet service provider to the consumer and business markets within the Moscow region also providing direct lines, digital channels and blocks of phone numbers to other telecom operators.
ZAO Petrodvor	Petrodvor	Lease of office premises to the parent company

Affiliates of MGTS provide cellular telecommunication, data transmission, electronic and voice mail, and teleconferencing services throughout the Moscow metropolitan area.

MGTS's license to operate in the city of Moscow and the Moscow region expires on January 1, 2004. The management believes that the term of the license will be prolonged.

Local telephone services are regulated tariff services and changes in rate structure are subject to Ministry of Antimonopoly Policy approval. The last change in rates structure was approved by the Ministry in 2001 (see Note 28). There are three main categories of rates: residential customers, state financed institutions and corporate entities. Residential customers are charged a fixed monthly fee while corporate entities and state-financed institutions are charged for local traffic in addition to a fixed monthly fee. In 2001, more than 65% of Wireline Voice Phone Communications segment revenues were generated from regulated tariff services.

2. ACQUIRING CONTROL OVER MTU-INFORM

MGTS acquired control over its former affiliate MTU-Inform at the beginning of the year 2000, while the legal procedures relating to the acquisition were completed in January 2001. Prior to the beginning of 2000 the investment in MTU-Inform was accounted for under the equity method. From the beginning of 2000 MTU-Inform has been consolidated as a 51% owned subsidiary.

Total assets and net assets of the MTU-Inform group as of December 31, 2001 (before consolidation adjustments) were $190.5 mln. and $112.3 mln. respectively. For the year ended December 31, 2001, revenues, operating income and net income were $123.4 mln., $46.0 mln. and $27.5 mln. respectively.

The transaction resulted in a decrease in the carrying value of property, plant and equipment of MTU-Inform for the difference between the cost of additional shares acquired by MGTS (that is $nil) and the corresponding share of net assets of MTU-Inform as at 1 January 2000. The carrying value of property, plant and equipment was credited $24.0 mln.

3. WORKING CAPITAL

As of December 31, 2001 and 2000 the Group had a net working capital deficit of $40 mln. and $166.8 mln. respectively. In addition, the Group is planning extensive capital expenditure including expansion and full digitalization of the Moscow telephone network, which can not be financed internally.

In the first quarter of 2001 the Group redeemed outstanding Salomon Brothers certificates amounting to $107.7 mln. This loan was refinanced mainly by a Russian Ruble (“RUR”) denominated loan from Sberbank of the Russian Federation amounting to $90 mln. Approximately $12.8 mln of the Sberbank loan was repaid in November 2001. The remaining balance of the loan ($72.9 mln. as of December 31, 2001) was extended to the first quarter of 2003.

In the prior year, the Group accounted for Ruble denominated bonds with maturities in 2003 as short-term borrowings. Although, in practice, the Group writes unconditional put options with an exercise value approximating fair value on the date of interest fixing, it is not legally required to do so. Historically, debtors have not asked for repayment and this is not expected to change throughout the following year. In addition, the Group entered into a number of agreements with third party lenders whereby they agree to acquire this debt, to approximately 50% of outstanding borrowings, if a debtor requests repayment. Therefore, the Group classified bonds as long-term borrowings as of December 31, 2001.

Management believes, on the basis of cash flow forecasts prepared, that the total facilities available to the Group will be sufficient to cover all of the Group’s current obligations.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("US GAAP"). The Group's entities maintain accounting records in Rubles in accordance with the requirements of Russian accounting and tax legislation. The accompanying financial statements differ from the financial statements prepared for statutory purposes in the Russian Federation (the "RF") in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP, which are not recorded in the accounting books of the Group's entities.

Principles of Consolidation - The consolidated financial statements include the accounts of MGTS and its subsidiaries after the elimination of significant intercompany transactions and balances. The ownership interest of MGTS and proportion of voting power of the Group in the significant subsidiaries as of December 31, 2001 and 2000 are as follows:

Operating entities	**Ownership interest**		**Proportion of voting power**	
	2001	**2000**	**2001**	**2000**
MTU-Inform	51%	51%	51%	51%
PeCom	40%	28%	79%	55%
MTU-Intel	31%	13%	38%	25%
PTT Teleport	31%	51%	38%	51%
Petrodvor	100%	100%	100%	100%

The Group's ownership structure includes interests owned by related party entities, related by means of common control. Net assets and operating results of the subsidiaries related to such holdings are accounted for as minority interests.

Use of Estimates - The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses of the reporting period. Actual results could differ from those estimates.

Concentration of Business Risk - The Group's principal business activities are within the RF. Laws and regulations affecting businesses operating in the RF are subject to rapid changes and the Group's assets and operations could be at risk in case of negative changes in the political and business environment.

Foreign Currency Translation - The Group follows a translation policy in accordance with Statement on Financial Accounting Standards No. 52, "Foreign Currency Translation". Due to the hyperinflationary economy in the RF, the US Dollar (the Group's reporting currency, "USD") has been designated as the Group's functional currency. Accordingly, all foreign currency amounts are translated into USD using the remeasurement method. Monetary assets and liabilities are translated into USD at the rate in effect as of the balance sheet date. Non-monetary balance sheet amounts are translated at the rate prevailing on the date of the transaction. Revenue and expenses are translated at the average rate for the quarter in which such transactions occurred. Translation gains and losses are included in the statements of operations.

The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Ruble and the USD at December 31, 2001 was 30.14 (2000: 28.16; 1999: 27.00).

The Ruble is not a fully convertible currency outside of the territory of the Russian Federation. The translation of Ruble denominated assets and liabilities into USD for the purpose of these financial statements does not indicate that the Group could or will in the future convert the reported values of the assets and liabilities in USD.

Revenue Recognition - The Group earns service revenues from usage of its local exchange networks and facilities. The Group receives subscription revenues from customers, which are recognized as revenue, net of rebates, in the period in which service is provided. Revenue based on minutes of traffic is recognized when the service is provided.

In December 1999 the US Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101 (SAB 101). Based on SAB 101, revenues associated with new service activation, including non-refundable connection fees received by telecommunications companies, should be deferred over the customer relationship period. According to management estimates, the customer relationship period for wireline voice phone subscribers is 15 years for residential customers and 5 years for all other categories of subscribers. The customer relationship period for subscribers for data transmission services and cellular communication is estimated at three years.

In 2000 the Group changed its accounting method for the recognition of connection fees in compliance with the provisions of SAB 101. For the year ended December 31, 2000, net income was charged with the amount of cumulative effect resulting from the application of SAB 101 provisions to prior years operations in the amount of $63.4 mln., net of income taxes of $11.2 mln.

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

Accounts Receivable - Accounts receivable are stated at their net realizable value after deducting an allowance for doubtful accounts. Such provisions reflect either specific cases of delinquency or defaults or estimates based on evidence of collectibility.

Concentrations of credit risk with respect to trade receivables are limited due to the composition of the customer base, which includes a large number of individuals, private businesses and state-financed institutions.

Financial Instruments and Fair Value - Financial instruments carried on the balance sheets include cash and bank balances, receivables, short-term investments, accounts payable and long-term debt. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The carrying amount of these assets and liabilities approximates fair value.

As of January 1, 2001 the Group adopted SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities”. This statement requires that all derivatives, including some embedded derivatives, be measured at fair value and recognized as either assets or liabilities on balance sheets. Changes are recorded in comprehensive income, depending on the designated use and effectiveness of the instruments. The effects of adoption were not material to the Group’s financial position or results of operations.

Inventories - Inventories comprise cables, spare parts, telephones and accessories and are stated at the lower of cost or market. Cost is computed on an average cost basis, except PeCom that accounts for its inventories using the FIFO cost method.

Property, Plant and Equipment - Property, plant and equipment is stated at cost less accumulated depreciation, except for assets contributed by the majority shareholder under the investment program and assets received free of charge from third parties. These assets have been included at fair values based on the estimated market values at the time of the transfer.

Significant renovations are capitalized if these extend the life of the asset or significantly increase its revenue generating capacity. Repairs and maintenance are charged to the statement of operations as incurred.

Capital leases are recorded at the lower of the fair market value of the asset or the present value of future minimum lease payments.

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

Property, plant and equipment is depreciated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	47
Site improvements	44
Operating voice phone communications equipment	17
Data transmission equipment	10
Transfer devices	31
Other equipment	3 – 25

Property, plant and equipment held and used by the Group are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may have been impaired. Management considers that no impairment has occurred relating to the Group's investments in property, plant and equipment as of December 31, 2001.

The Group incurs costs associated with operating and other equipment, which require installation and related works to enable assets to commence revenue generating activities. All costs necessarily incurred which are directly attributable to the construction, preparation and installation of an item to commence revenue generating activities are capitalized and accumulated as capital work in progress.

Goodwill - The excess value arising on the acquisition of subsidiaries where the purchase price exceeds the fair value of the acquired assets on the date purchased will be recorded as goodwill. Goodwill is amortized over what is deemed to be the useful life of the asset. The useful life has currently been assessed at 10 years.

From January 1, 2002, goodwill will be carried unamortized on the balance sheet if it is deemed to have an infinite life. Instead it will be subject to an annual impairment test. If the goodwill or part thereof is found to be impaired, the impaired portion will be expensed to the income statement in the period in which the impairment is identified. Should the goodwill be deemed to have a finite life, the goodwill will be amortized over this period (see Note 29).

Investments - Investments in which the Group does not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method.

Investments in businesses in which the Group does not have control, but does have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. Significant influence is usually demonstrated by the Group owning, directly or indirectly, between 20 percent and 50 percent of the voting share capital. The Group's share of net profit of affiliates is included in the statement of operations, and the Group's share of the net assets of affiliates is included in the balance sheet.

***Retirement and Post-Retirement Benefits* -** Contributions are made to the Government's social and medical insurance and retirement benefit schemes at the statutory rates in force during the year. The costs of these benefits are charged to the statement of operations as incurred.

The Group does not maintain any formalized retirement or post-retirement benefit plans, however management has estimated the accrued cost for certain benefits MGTS has historically offered its employees upon and after retirement. The cost of such benefits is recognized during an employee's years of active service.

***Property, Plant and Equipment Contributions* -** Property, plant and equipment which has been transferred to the Group free of charge is capitalized at its market value at the date of transfer and a corresponding liability is established, which is credited to the statement of operations in the same periods as the property, plant and equipment is depreciated.

***Income Taxes* -** Income taxes have been computed in accordance with RF laws. From April 1, 1999, the RF enacted an income tax rate of 30% and beginning January 1, 2001, this rate was increased to 35%. Effective January 1, 2002, the tax rate decreased to 24%, income tax on dividends paid within Russia is 6%, investment allowances are abandoned and unused taxable losses are allowed to be carried forward for 10 years.

Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Group will be able to realize the benefit, or the future deductibility is uncertain.

***Borrowing Costs* -** The Group capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. Other borrowing costs were recognized as an expense in the period in which they were incurred. Debt issue costs are amortized to expense over the term to maturity.

As described in Note 3, MGTS writes unconditional put options for its RUR denominated bonds. The first issue has an interest rate less than the market rate. As such, the put options for the first issue are written at a premium from par value. This premium is recorded as interest expense in the period the option is written.

***Earnings Per Share* -** Earnings per share are computed using the two-class method. Net income available to common shareholders is divided by the weighted average number of common shares outstanding in the year. Net income available to common shareholders is determined by reducing net income by the greater of dividends declared in the accounting period on preferred shares or of dividends on preferred shares guaranteed under MGTS Charter.

***Dividends* -** Annual dividends are recommended by the Board of Directors for approval of the shareholders in a general meeting. This occurs subsequent to year end and dividends are recognized in the year to which they relate.

Restatement of comparative figures **-** As of December 31, 1999 the cost of property, plant and equipment of MGTS was stated at an estimate of historic acquisition cost as of December 31, 1996, determined in USD by an independent professional appraiser, with subsequent additions at cost.

During 2000, as a result of system enhancements, it became possible to determine an appropriate historic cost of property, plant and equipment and a more accurate estimation of related deferred taxes. The Group has restated the financial statements from the beginning of the application of US GAAP.

To arrive at historic cost, an exchange rate of RUR 110 to one USD (a market exchange rate established as of January 1, 1992) was used for all assets purchased before January 1, 1992. The official exchange rate prevailing at the date of acquisition was used for all subsequent additions.

In addition, interest costs in the amount of $5.6 mln., which were expensed in a previously issued set of financial statements, have been restated and are now capitalized in accordance with US GAAP.

The effect of the restatements on prior years comparative figures is as follows

Balance Sheet	**December 31, 1999**
Decrease in the value of property, plant and equipment	(514,260)
Deferred tax	7,835
Retained earnings decrease	506,425

Statements of operations	**Year ended December 31, 1999**
Depreciation decrease	65,445
Interest charge decrease	5,606
Deferred tax decrease	626

Reclassifications **-** Certain reclassifications of prior years' amounts have been made to conform to the presentation adopted for 2001.

5. CASH AND CASH EQUIVALENTS

	2001	**2000**
Rubles	19,508	14,655
US Dollars	2,954	5,263
Restricted cash - US Dollars	-	1,091
Other currencies	157	102
Cash equivalents	8,651	-
Total	**31,270**	**21,111**

Cash equivalents as of December 31, 2001 include USD denominated promissory notes from Moscow Bank for Reconstruction and Development ("MBRD"), a company related by means of common control and RUR denominated notes of MestBank. Such notes have original maturities of three months or less.

The Group's cash deposits in MBRD as of December 31, 2001 and 2000 amounted to $18.6 mln. and $3.7 mln., respectively.

Restricted cash balance maintained under the terms of a letter of credit held in Guta Bank for settlements with a supplier of telecommunication equipment amounted to $Nil and $1.1 mln. as at December 31, 2001 and 2000, respectively.

6. ACCOUNTS RECEIVABLE, ADVANCES AND TAXES RECEIVABLE, NET

	2001	2000
Customers	27,891	22,568
Related parties, including affiliates, Rostelecom and state-financed institutions (Note 25)	9,109	6,457
Other receivables and advances	9,813	8,911
VAT recoverable	15,973	3,007
Other taxes receivable	1,203	300
Allowance for doubtful accounts	(2,432)	(1,119)
Total	**61,557**	**40,124**

Rostelecom, provider of national long distance and international telecommunications services, is a subsidiary of Svyazinvest, which owns 28% of MGTS voting shares. Svyazinvest is controlled by the Government of the RF.

Rostelecom pays a fee to MGTS for the transit of domestic long distance and international calls in Moscow. Respective revenue amounts are disclosed in Note 17. MGTS provides services to state-financed institutions at concessionary rates, as compared to commercial entities.

7. SHORT-TERM INVESTMENTS

	2001	2000
Investment Pension Company RUR loan, non-interest bearing	836	-
MBRD USD promissory notes (at 0.1% and 6% respectively)	25	1,218
Guta Bank USD promissory notes (at 6.5%)	-	2,200
Total	**861**	**3,418**

In November 2000 the Group signed an agreement with Investment Pension Company, a company related by means of common control (Note 25), which extended the maturity of the loan until August 2002. The loan is classified as a short-term investment as of December 31, 2001 and as a long-term investment as of December 31, 2000 (Note 10).

All the investments are shown at original acquisition cost, which approximates their fair value.

8. PROPERTY, PLANT AND EQUIPMENT, NET

	2001	2000
Buildings and site improvements	153,560	145,859
Switches and transmission devices	716,224	618,263
Other fixed assets	113,328	86,027
Construction in progress	82,125	76,562
Total cost	1,065,237	926,711
Accumulated depreciation	(226,540)	(160,023)
Total	**838,697**	**766,688**

Construction-in-progress and equipment for installation are not depreciated until an asset is placed into service.

9. GOODWILL, NET

	2001	2000
Goodwill	22,894	-
Accumulated amortization	(868)	-
Total	**22,026**	**-**

Goodwill arose in 2001 as a result of increase of MTU-Inform share in PeCom from 55% to 79%.

10. LONG-TERM INVESTMENTS

	2001		2000	
	Ownership, %	**Investment US$'000**	**Ownership, %**	**Investment US$'000**
Investments in affiliates:				
ZAO Comstar	50	32,450	50	31,730
ZAO Telmos	40	17,178	40	16,336
OAO MCC	23.5	6,730	23.5	6,730
ZAO Golden Line	50	4,435	50	5,431
Other		3,981		3,981
Total investments in affiliates		64,774		64,208
Other investees, at cost	Various	2,955	Various	2,665
Interest free loans to investees		6,289		8,129
Total		**74,018**		**75,002**

Equity accounting for investments in MCC was discontinued in 2001 as shares were transferred under trust management of a related party.

During 2000, the Group disposed its 2.3% holding in ZAO Rosiko, a company owning cellular communications licenses for several regions of RF, to MTS, a related party for $2.3 mln. realizing a gain on disposal of approximately the same amount.

During 1999, the Group disposed of its 10% holding in ZAO Combellga, Moscow telecommunications operator. In April 2002 the Group agreed to defer repayment of $3.1 mln. outstanding on the respective note receivable to April 2005, while $0.6 mln. was collected upfront. The long-term portion of the note receivable is stated at estimated fair value as it is recoverable over more than one year. As of December 31, 2001 and 2000 it is included in other long-term assets in the amounts of $2.4 mln. and $3.1 mln. respectively

Distributable retained earnings of the Group's investees are based on amounts extracted from their statutory accounts and may significantly differ from the amounts calculated on the basis of US GAAP (Note 14).

None of the Group's investees are publicly traded, and consequently no market value information is available.

11. TRADE ACCOUNTS PAYABLE, TAXES PAYABLE AND OTHER ACCRUED LIABILITIES

	2001	2000
Trade accounts payable	22,297	19,626
Taxes payable	13,367	7,420
Accrued payroll	2,785	1,754
Accrued interest	3,018	4,853
Other liabilities	4,723	7,511
Total	**46,190**	**41,164**

12. DEBT OBLIGATIONS

Bank Loans	**Note**	**2001**	**2000**
Collateralized bank loans	**(a)**	**99,163**	**23,361**
Sberbank RUR denominated loan		72,854	7,527
Vneshtorgbank USD denominated loan		7,420	-
Vneshtorgbank RUR denominated loan		4,479	-
Guta-Bank USD denominated loan		8,004	10,330
MBRD USD denominated loan		4,500	-
Avtobank USD denominated loan		1,906	5,504
Uncollateralized USD denominated bank loans guaranteed by third parties	**(b)**	**12,516**	**19,611**
Credit Suisse loan		3,090	13,290
ING Bank loan		-	6,321
Citibank loan		9,426	-
Eurobond borrowings	**(c)**	**-**	**107,720**
Uncollateralized RUR denominated corporate bonds	**(d)**	**53,086**	**21,307**
1st issue, 1st tranche		11,944	12,784
1st issue, 2nd tranche		7,963	8,523
2nd issue		33,179	
Uncollateralized borrowings from related parties	**(e)**	**16,036**	**4,081**
MBRD USD denominated loan		8,009	3,300
RUR denominated promissory notes issued to MBRD		896	781
Dottie Enterprises Ltd. USD denominated loan		7,131	-
Vendor financing	**(f)**	**37,691**	**27,136**
Long-term portion		7,615	18,108
Short-term portion		30,076	9,028
Capital Lease	**(g)**	**8,509**	**-**
Long-term portion		5,335	-
Short-term portion		3,174	-
Total borrowings		**227,001**	**203,216**
Less amounts maturing within one year		(69,008)	(175,174)
Total long-term debt		**157,993**	**28,042**

(a) In December 1999 MGTS signed a credit facility arrangement with Sberbank of Russian Federation for a total amount equivalent to 30 mln USD. The outstanding balance on the loan as of December 31, 2000 amounted to $7.5 mln. It was fully repaid in December 2001.

In December 2000 MGTS arranged another credit facility with Sberbank for a total amount equivalent to 90 mln USD to refinance its obligations under Eurobond borrowings. The loan was received in three tranches during the first quarter of 2001. In the fourth quarter of 2001 MGTS repaid equivalent of $12.8 mln. on the loan and prolonged repayment of the outstanding balance to the first quarter of 2003. The loan is collateralized by pledge of equipment valued by independent appraiser at $204 mln.

In June and October 2001 MGTS received three loans from Vneshtorgbank to finance working capital. Amounts due are $4.5 mln. in December 2002, 135 mln. RUR ($4.5 mln. as at December 31, 2001) in February 2003, $2.9 mln. in May 2003. The loans are collateralized by pledge of equipment valued by the parties at $15.4 mln.

In 1999 and 2000 loans were provided to MGTS by Guta-Bank for the purchase of equipment from a foreign vendor. The pledged equipment as at December 31, 2001 is valued at $ 6.2 mln. Under the terms of the agreements MGTS is required to maintain monthly gross cash flows on the specified bank accounts in amount of $14 mln. The loans are repayable in equal semiannual installments to be finally settled in 2005.

In November 2001 MGTS was granted a loan of $6.1 mln. by MBRD. The outstanding balance on the loan of $4.5 mln. is to be repaid in July 2002. 25% of ZAO Comstar shares have been pledged as collateral for this loan.

In 1997 two loans amounting in aggregate to $12.2 mln. were received by MTU-Inform from Avtobank. Outstanding balances on the loans are repayable in 2002. Both loans are secured by equipment.

(b) Uncollateralized bank loans as of December 31, 2001 are provided by Credit Suisse and Citibank for the purchase of equipment. The Credit Suisse loan is guaranteed by the equipment vendor, Lucent Technologies, while the Citibank loan is guaranteed by Export Guarantee and Insurance Corporation, Czech Republic and AFK “Sistema”.

Under the terms of the Credit Suisse loan MGTS is not allowed to participate in any merger or to dispose of more than 10% of its assets without the written approval of the Bank. The loan was fully repaid in the first quarter of 2002.

Based on restrictive covenants of the Citibank loan agreement the Debt to Equity and Debt Service to Earnings Before Interest and Taxes (EBIT) ratio of MGTS should not exceed 1:1. MGTS is not allowed to obtain borrowings exceeding $30 mln. (apart from the Sberbank loan) or alienate more than 10% of its assets without the written approval of the Bank and its aggregate debt may not exceed $250 mln. The loan is repayable in quarterly installments to be finally settled in 2004.

(c) MGTS borrowed $150 mln. in March 1998. The loan was financed by Loan Participation Certificates listed on the Luxembourg stock exchange, which were collateralized on the rights of, but without recourse to, Salomon Brothers AG. In 1999 MGTS redeemed Loan Participation Certificates of total nominal value $37.9 mln. Gain on early extinguishment of debt amounted to $6.2 mln., net of income tax of $2.7 mln. In March 2001 MGTS redeemed all outstanding Certificates.

(d) In the fourth quarter of 2000 MGTS issued two tranches of RUR denominated bonds with aggregate face value of RUR 600 mln. due in 2003. Interest is payable every 4 months. Both tranches have a floating interest which is set for each coupon payment 14 days before the date of the prior coupon payment. Interest is equal to the weighted average interest rate of Russian Government Federal Bonds (OFZ) as at the date the interest rate is fixed.

In the fourth quarter of 2001 MGTS issued RUR denominated bonds with face value of RUR 1,000 mln. due in 2004. Interest is payable semiannually. The issue has a floating interest which is set for each coupon payment not later than 6 days before the date of the prior coupon payment. Interest should not be less than the weighted average interest rate of Russian Government Federal Bonds (OFZ) as at the date the interest rate is fixed.

As described in Note 3, MGTS reclassified liability on bonds from short-term to long-term borrowings as of December 31, 2001.

(e) In July 2001, PeCom received an unsecured loan of $8 mln. from Dottie Enterprises Ltd. This loan is repayable in 2002.

(f) Foreign suppliers of telecommunications equipment provide noncollateralized commercial credit to the Group denominated in various currencies on short-term and long-term bases, mostly interest free.

(g) During 2001 MGTS entered several lease agreements for telecommunications equipment. The agreements expire in 2004-2005 and assume transfer of ownership for equipment to MGTS after the last lease payment is effected. The net book value of leased assets comprised $13.2 mln. as of December 31, 2001, while rent expense in 2001 was $0.5 mln.

The weighted average interest rate of all borrowings denominated in hard currency at December 31, 2001 and 2000 was 9.28% and 12.18%, respectively, while it was 21.88% and 19.76%, respectively, for borrowings denominated in RUR. These figures are calculated without taking into account borrowings from related parties, vendor financing arrangements and capital lease agreements.

The debt obligations as of December 31, 2001 have the following maturities:

2002	69,008
2003	114,427
2004	40,764
2005	1,955
2006	637
Thereafter	210
Total	**227,001**

13. DEFERRED REVENUE

	2001	**2000**
Short-term portion		
Deferred revenue from connection fees (Note 4)	19,780	22,883
Advances from customers	13,912	11,731
Deferred gain on disposal of an investment	735	735
Total	**34,427**	**35,349**
Long-term portion		
Deferred revenue from connection fees (Note 4)	53,428	58,412
Deferred gain on disposal of an investment	1,487	2,222
Total	**54,915**	**60,634**

The gain on sale of an investment to a related party has been deferred to future accounting periods and is recognized as the Group fulfills its obligations under the transaction.

14. SHAREHOLDERS' EQUITY

Common shares carry voting rights with no guarantee of dividends.

Preferred shares carry guaranteed dividend rights amounting to the higher of 10% of the income of MGTS as disclosed in the Russian statutory accounting reports prepared under Russian accounting regulations and the dividends paid on common shares. No dividends may be declared on common shares before dividends on preferred shares are declared. Where the preferred dividend payable according to the Charter is not paid in any year the preferred shares also carry voting rights. At the annual shareholders meetings in June 2001 and 2000 the payment of a dividend to preferred shareholders was approved.

Preferred shares usually carry no voting rights except on resolutions regarding liquidation or reorganization of MGTS, changes to dividend levels of preferred shares, or the issuance of additional preferred stock. Such resolutions require two-thirds approval of preferred shareholders. The preferred shares have no rights of redemption.

In the event of liquidation, preferred shares have priority over common shares. In this circumstance, holders of preferred shares receive the par value of their shares, or the amounts payable to common shareholders, if higher.

In accordance with the Charter, MGTS is permitted to repurchase, on the open market, up to 10% of its common and preferred shares each year. Repurchased shares must either be sold or cancelled within one year of being purchased. MGTS has no treasury shares as at December 31, 2001.

In 1999 MGTS increased the par value of each share of its common and preferred stock from RUR 1 to RUR 1,000. In 2000 MGTS split both common and preferred shares. Each common and preferred share with nominal value RUR 1,000 was split into 50 new shares of the same equity class with nominal value RUR 20.

15. OTHER ADDITIONAL CAPITAL

During 2000 and 1999 MGTS received property, plant and equipment and other assets under an investment program completed by the majority shareholder. These contributions have been valued at the market value of the assets received.

16. INTEREST EXPENSE

	2001	**2000**	**1999**
Interest charge	30,491	28,139	24,608
Less amounts capitalized	(1,182)	(12,540)	(12,286)
Interest expense	**29,309**	**15,599**	**12,322**

17. REVENUES

	2001	2000	1999
Fixed monthly charges denominated in Rubles			
Companies	56,406	46,466	69,418
State financed institutions	14,569	10,778	13,669
Residential customers	57,036	45,225	36,140
Local traffic fees denominated in Rubles			
Companies	25,140	23,603	13,936
State financed institutions	2,567	1,982	1,027
Service activation fees denominated in Rubles			
Companies	14,062	14,307	7,464
State financed institutions	1,376	2,164	775
Residential customers	3,053	2,866	3,099
Data transmission and wireless	123,859	91,822	-
OAO Rostelecom interconnect	32,459	23,128	23,586
Rental of lines	17,720	19,115	7,956
Other	39,389	33,237	10,843
Total	**387,636**	**314,693**	**187,913**

18. OPERATING EXPENSES

	2001	2000	1999
Employee costs	81,158	55,766	41,036
Depreciation and amortization	63,992	44,189	28,561
Repairs and maintenance	37,606	23,507	25,992
Taxes other than income taxes	17,054	23,277	12,560
Utilities and energy	9,984	6,482	5,296
Rent	7,017	5,570	2,833
Network traffic	8,983	5,507	-
Insurance	1,922	3,929	-
Transportation	1,875	2,108	2,409
Advertising	6,015	1,895	384
Provision for bad debts	1,313	143	87
Sundry expenses	27,457	30,188	13,036
Total	**264,376**	**202,561**	**132,194**

19. OTHER EXPENSES, NET

	2001	2000	1999
Income/(loss) from affiliates	2,287	(4,012)	9,517
Interest income	937	1,288	2,724
Interest expense (Note 16)	(29,309)	(15,599)	(12,322)
Currency translation gain/(loss)	3,375	(9,888)	(17,713)
Total	**(22,710)**	**(28,211)**	**(17,794)**

20. INCOME TAXES

	2001	2000	1999 (restated)
Current income taxes	26,528	24,943	4,413
Deferred taxes	4,154	(36,774)	671
Total income taxes	**30,682**	**(11,831)**	**5,084**
Less tax effect of extraordinary item (Note 12)	-	-	(2,656)
Add tax effect of accounting change (Note 4)	-	11,154	-
Income taxes before extraordinary item and accounting change	**30,682**	**(677)**	**2,428**

The provision for income taxes is different from that which would be obtained by applying the statutory income tax rate to net income before income tax, minority interest, extraordinary item and cumulative effect of accounting change. The items causing this difference are as follows:

	2001	2000	1999 (restated)
Income tax charge computed on income before taxes at standard tax rate applicable to the Group of 35% (2000 and 1999:30%)	35,193	1,219	14,033
Effect of changes in income tax rate	10,918	(2,924)	(1,143)
Tax credits	(10,374)	(10,447)	(4,464)
Currency exchange and translation differences	1,681	10,317	(11,554)
Effect of rates different from standard	(457)	611	(1,428)
Non-deductible items	12,523	5,900	9,640
Goodwill amortization	(537)	(721)	-
Change in valuation allowance	(18,265)	(15,786)	-
Income tax expense (benefit)	**30,682**	**(11,831)**	**5,084**

Deferred tax assets and liabilities comprise the following:

	2001	2000
Deferred tax assets		
Accrued operating expenses	2,079	1,932
Post-retirement benefits	1,634	-
Property, plant and equipment contributions	11,613	13,295
Deferred revenues	9,421	16,961
Tax losses carry forward	14,783	34,248
Valuation allowance	-	(18,265)
Total	**39,530**	**48,171**
Deferred tax liabilities		
Valuation of affiliates	(3,751)	(9,480)
Depreciation of PPE	(4,477)	(4,624)
Other	(1,998)	(609)
Total	**(10,226)**	**(14,713)**

Deferred income tax assets are recognized for tax loss carry forwards to the extent that realization of the related tax benefit is more likely than not. MGTS has tax losses incurred in 1998 to carry forward against future taxable income during 10 years restricted to 30% of the taxable profit in each year. Taking into consideration that MGTS currently generates significant taxable income and the fact that $5.7 mln. of losses carried forward were actually used in 2001, 50% of the allowance for the balance was released as of December 31, 2001.

21. SEGMENT INFORMATION

MGTS acquired control over MTU-Inform at the beginning of 2000 (Note 2). Segment data are presented for 2001 and 2000, as previously MGTS operated in one segment of Wireline Voice Phone Communications.

	2001	2000
Revenues:		
Voice Phone Communication	274,371	226,747
Data transmission	123,859	91,822
Intersegment revenue	(10,594)	(3,876)
Consolidated revenue	387,636	314,693
Operating profit:		
Voice Phone Communication	67,412	67,981
Data transmission	55,848	44,151
Consolidated operating profit	123,260	112,132
EBITDA:		
Voice Phone Communication	115,133	103,747
Data transmission	63,916	52,574
Consolidated EBITDA	179,049	156,321
Depreciation:		
Voice Phone Communication	51,377	35,766
Data transmission	12,615	8,423
Consolidated depreciation	63,992	44,189
Capital expenditures:		
Voice Phone Communication	100,103	82,137
Data transmission	41,033	15,353
Consolidated capital expenditures	141,136	97,490
Assets:		
Voice Phone Communication	920,931	891,365
Data transmission	190,524	119,435
Intersegment assets	(25,507)	(21,210)
Consolidated assets	1,085,948	989,590

22. EARNINGS PER SHARE

Earnings per common share have been calculated using the two-class method on the basis of earnings and weighted average number of common shares outstanding calculated as follows:

	2001	2000	1999
Net profit	55,066	9,415	41,694
Less: dividends declared on preferred shares	(1,218)	(2,685)	(41)
Less: excess of dividends on preferred shares guaranteed by MGTS Charter over actual dividend declared	-	-	(6,909)
Net profit available to common shareholders	**53,848**	**6,730**	**34,744**

Weighted average number of common shares outstanding was 79,829,200 throughout 1999-2001.

23. OPERATING LEASES

(a) As lessor - The Group leases excess office space to others through operating leases, the majority of which are cancelable. Assets under operating leases are included in property, plant and equipment. The amount of rent income under these agreements is not significant to the Group's results.

(b) As lessee - The Group leases buildings and office space mainly from Moscow Government through contracts, which expire in various years through 2006. Rental expenses under operating leases are included in the statement of operations (Note 18). Future minimum lease payments due under non-cancelable leases at December 31, 2001 are:

2002	3,654
2003	1,206
2004	638
2005	186
2006	94
Total	**5,778**

The land on which the Group's buildings and other facilities are located is owned by the City of Moscow. The Group pays the city rent for the land based on the total area and location of land occupied. Land rental expense was approximately $1 mln. in 1999-2001.

24. RETIREMENT AND POST-RETIREMENT BENEFITS

MGTS has historically provided certain benefits to employees upon their retirement and afterwards. These benefits, however, have not been formalized and management may elect at any time to change or stop providing these benefits. MGTS currently provides bonus payments of two months salary to all retiring employees; lifetime payments of a fixed amount (determined at 2,000 RUR for the year 2002), to employees retiring with at least fifteen years of service; and discounted telephone service to employees retiring with at least thirty years of service.

Although currently there is no contractual obligation on MGTS to continue providing such benefits, the Group has accrued liabilities of $6.8 mln. and $3.8 mln. as of December 31, 2001 and 2000, respectively, to recognize the estimated projected obligations. These are included as other long-term liabilities in these financial statements.

In 2002 management intends to formalize MGTS obligations under the pension plan by signing a service agreement with a related private pension fund.

25. RELATED PARTY TRANSACTIONS

The Group provides services to affiliates and companies related by means of common control. The revenues generated from these companies in 2001, 2000 and 1999 were approximately $51 mln., $34 mln. and $10 mln., respectively.

26. COMMITMENTS AND CONTINGENCIES

Guarantees - MGTS guarantees bank loans for several related companies, including affiliates which totaled $42.4 mln. and $50 mln. at December 31, 2001 and 2000, respectively. Management anticipates no losses from guarantees given to related entities.

Legal proceedings - The Group is involved in litigation and other claims that are in the ordinary course of its business activities. Management believes that the resolution of such matters will not have a material impact on its financial position or operating results.

Taxation - Russian authorities are increasingly directing their attention to the business community as a result of the overall economic Russian environment. In respect of this, the local and national environment in the RF is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with RF laws and regulations can lead to the imposition of severe penalties and interest. Future examinations could raise issues or assessments, which are contrary to the Group's filings and registrations. Such assessments could include taxes, penalties and interest, or other fines and these amounts could be material. While the Group believes it has complied with local legislation, there have been many new laws and related regulations introduced in recent years which are not always clearly written and defined.

Licenses - Substantially all the Group's revenues are derived from operations conducted pursuant to licenses to operate in Moscow and the Moscow region granted by the Russian Government. The Voice Phone Communication license expires on January 1, 2004. Suspension or termination of the Group's main license or any failure to renew it could have a material adverse effect on the financial position and operations of the Group. However, the Group has no reason to believe that the license will not be renewed or suspended or terminated, and the management estimates the possibility of such events as very low.

Commitments - The Group has commitments under several contracts for purchase of telecommunications equipment amounting to $6.2 mln. as of December 31, 2001.

27. OTHER MATTERS

Interest of the Moscow City Government in the telecommunications sector in the Moscow metropolitan area - The operations of the telecommunications network in Moscow are of considerable interest to the City Government. The City Government has exercised and may be expected to continue to exercise influence over the Group's operations. In particular, the City Government may influence setting of tariffs charged to customers to protect low income groups, such as pensioners.

Update of foreign currency long-term credit rating - In December 2001 the international rating agency Standard & Poor's raised the foreign currency long-term credit rating of MGTS from CCC- (CCC minus) to CCC+ (CCC plus). The outlook for the rating has been determined as stable.

28. SUBSEQUENT EVENTS

In January 2002 MGTS increased fixed monthly charges for residential customers from RUR 70 to RUR 80. MGTS sales to residential customers became subject to sales tax of 5% starting from January 1, 2002.

29. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets". SFAS No. 141 requires business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. The statement includes provisions for the identification of reporting units for purposes of assessing potential future impairments of goodwill. Upon adoption, the Group will discontinue the amortization of intangible assets with indefinite useful lives, including goodwill and trade names. During 2002, the Group will be conducting impairment reviews of all intangible assets with indefinite useful lives in accordance with the provisions of SFAS No. 142.

In June 2001, the FASB issued SFAS No. 143 "Asset Retirement Obligations" which establishes new accounting and reporting standards for legal obligations associated with retiring assets. The fair value of a liability for an asset retirement obligation must be recorded in the period in which it is incurred, with the cost capitalized as part of the related long-lived assets and depreciated over the asset's useful life. Changes in the liability resulting from the passage of time will be recognized as operating expenses. SFAS No. 143 must be adopted by 2003.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long Lived Assets", which supersedes both SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions for the disposal of a segment of a business contained in APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations. The provisions of SFAS No. 144 are effective beginning in 2002 and are not expected to have a material impact on the Group’s consolidated results of operations or financial position.