

OA O ROSTELECOM

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

AS OF JUNE 30, 2003 AND FOR THE SIX MONTHS PERIOD THEN ENDED

**OA O ROSTELECOM
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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STATEMENT OF DIRECTORS' RESPONSIBILITIES

To the Shareholders of OAO Rostelecom

1. International convention requires that management prepare consolidated financial statements which present fairly, in all material respects, the state of affairs of the Group at the end of each financial period and of the results and cash flows for each period. Management are responsible for ensuring that all Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards and that their statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
2. Management considers that, in preparing the consolidated financial statements set out on pages 4 to 24, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that appropriate International Financial Reporting Standards have been followed.
3. The consolidated financial statements, which are based on the statutory accounting reports adjusted to comply with International Financial Reporting Standards, are hereby approved on behalf of the Board of Directors.

For and on behalf of the Board of Directors:

S.I.Kuznetsov
General Director

OAO Rostelecom
1st Tverskaya-Yamskaya, 14,
Moscow
Russian Federation

October 21, 2003

ОАО Rostelecom
CONSOLIDATED BALANCE SHEETS
(In millions of Russian Rubles)

	Notes	June 30, 2003 (unaudited)	December 31, 2002
ASSETS			
Property, plant and equipment, net	5	53,151	56,278
Investments in associates	7	2,502	2,635
Long-term financial investments	8	826	578
Goodwill		37	39
Negative goodwill, net of current portion		(193)	(240)
Lease receivables		4,137	2,713
Other non-current assets		272	356
Non-current assets		60,732	62,359
Inventory		503	502
Accounts receivable, net	9	10,209	8,617
Short-term investments	10	4,982	4,575
Short-term portion of negative goodwill		(32)	(471)
Cash and cash equivalents	11	3,346	3,642
Current assets		19,008	16,865
Total assets		79,740	79,224
SHAREHOLDERS' EQUITY, MINORITY INTEREST AND LIABILITIES			
Share capital	12	100	100
Retained earnings		49,155	48,933
Total shareholders' equity		49,255	49,033
Minority interest	13	3,414	2,825
Accounts payable and accrued expenses		4,864	5,162
Amounts owed to customers		573	1,003
Taxes payable		2,019	2,253
Current portion of interest bearing loans	14	2,697	4,529
Short-term borrowings		2,640	1,537
Current liabilities		12,793	14,484
Interest bearing loans, net of current portion	14	4,712	2,317
Non-current accounts payable		269	262
Deferred tax liability		9,297	10,303
Non-current liabilities		14,278	12,882
Total liabilities		27,071	27,366
Total shareholders' equity, minority interest and liabilities		79,740	79,224
Commitments and contingencies	17	-	-

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

ОАО Rostelecom
CONSOLIDATED STATEMENT OF OPERATIONS
(In millions of Russian Rubles)

	Notes	The six months ended June 30, 2003 (unaudited)
Revenue		
Local operators		6,276
Subscribers		4,494
Foreign operators		2,200
Other		783
Total revenue	15	13,753
Operating expenses		
Wages, salaries, other benefits and payroll taxes		(2,063)
Depreciation	5	(4,361)
Charges by network operators – international		(2,692)
Charges by network operators – national		(918)
Administration and other costs		(1,557)
Taxes other than on income		(171)
Repairs and maintenance		(362)
Bad debt expense		(271)
Loss on sale of property, plant and equipment		(226)
Total operating expenses		(12,621)
Operating profit		1,132
Gain from associates (excluding related tax)		45
Interest expense		(385)
Interest income		300
Gain on debt restructuring	14	738
Other non-operating income, net		90
Foreign exchange gain, net		50
Income before tax and minority interest		1,970
Current tax charge		(1,346)
Deferred tax benefit		981
Share in income taxes of associates		(54)
Income tax expense		(419)
Income after taxation		1,551
Minority interest		(623)
Net income		928
		Rubles
Earnings per share – basic and diluted		0.85

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

OA O Rostelecom
CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions of Russian Rubles)

	Notes	The six months ended June 30, 2003 (unaudited)
Cash flows from operating activities		
Net income before taxation and minority interest		1,970
<i>Adjustments to reconcile net income before taxation and minority interest to cash generated from operating activities:</i>		
Depreciation	5	4,361
Bad debt expense		271
Gain from associates		(45)
Loss on sale of property, plant and equipment		226
Net interest and other non-operating income		(743)
Other non-monetary income		(26)
Foreign exchange gain, net		(50)
<i>Changes in net working capital:</i>		
Increase in accounts receivable		(358)
Increase in lease receivables		(1,758)
Increase in inventories		(1)
Decrease in payables and accruals		(1,946)
Cash generated from operations		1,901
Interest paid		(518)
Interest received		208
Income tax paid		(1,160)
Net cash provided by operating activities		431
Cash flows from investing activities		
Purchase of property, plant and equipment		(1,659)
Proceeds from sale of property, plant and equipment		13
Purchase of available-for-sale investments (securities), net		(2,000)
Proceeds from sale of available-for-sale investments, net of direct costs		1,292
Net cash used in investing activities		(2,354)
Cash flows from financing activities		
Drawdown of interest bearing loans		1,570
Repayment of interest bearing loans		(1,556)
Proceeds from notes issue		2,259
Redemption of notes		(592)
Dividends paid		(12)
Dividends paid to minority shareholders of subsidiary		(3)
Net cash provided by financing activities		1,666
Effect of exchange rate changes on cash and cash equivalents		(39)
Net decrease in cash and cash equivalents		(296)
Cash and cash equivalents at beginning of period		3,642
Cash and cash equivalents at end of period		3,346

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

ОАО Rostelecom
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In millions of Russian Rubles)

	Notes	Share capital	Retained earnings	Total
Balance at December 31, 2002		100	48,933	49,033
Dividends	12		(706)	(706)
Net income for the period (unaudited)			928	928
Balance at June 30, 2003 (unaudited)		100	49,155	49,255

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

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Notes to Consolidated Interim Financial Statements as of June 30, 2003 and for the six months period then ended

(In millions of Russian Rubles)

1. REPORTING ENTITY

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

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

The accompanying consolidated financial statements incorporate the results of operations of the Company and its subsidiaries, as detailed in Note 6.

Rostelecom was established as an open joint stock company on September 23, 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia No. 1507-r, dated August 27, 1993. As of June 30, 2003, the Government of the Russian Federation controlled indirectly 50.67% of the voting share capital of the Company, by virtue of its 75% less one share direct holding in OAO Svyazinvest ("Svyazinvest"), the parent company of Rostelecom.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standard, IAS 34, "Interim Financial Reporting", as published by the International Accounting Standards Board, except for absence of comparative data for the six months ended June 30, 2002.

Some of the notes to the financial statements were reduced or not included into these financial statements according to IAS 34 "Interim Financial Reporting". The management of the Group believes that the notes to the consolidated interim financial statements are sufficient to prevent the misleading of users of these financial statements. In the opinion of the Group's management, the business is not subject to material seasonal fluctuations.

The consolidated financial statements for the interim period presented may not be necessarily indicative of the financial results for any later interim periods or for the whole year.

The consolidated financial statements have been prepared using the same accounting policies as for the year ended December 31, 2002.

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

The consolidated financial statements have been prepared using the historical cost convention, restated for the effects of inflation up to December 31, 2002 and modified by the initial valuation of property, plant and equipment. The functional currency of the Group and the reporting currency for the accompanying consolidated financial statements is the Russian Ruble (Rbl).

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Notes to Consolidated Interim Financial Statements as of June 30, 2003 and for the six months period then ended

(In millions of Russian Rubles)

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

3. OPERATING ENVIRONMENT OF THE COMPANY

General

Over the past decade Russia has undergone substantial political, economic and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current Government is addressing 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. The Group will continue to be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets, and the ability of the Group to maintain or pay its debts as they mature. The accompanying consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Group's consolidated financial statements in the period when they become known and can be reasonably estimated.

Currency exchange and control

Foreign currencies, in particular the US Dollar, play a significant role in the underlying economics of many business transactions in Russia. Following the 1998 economic crisis, the Ruble's value fell significantly against the US Dollar, falling from a pre-crisis rate of approximately 6 Rubles to 1 US Dollar, to 27 Rubles to 1 US Dollar by the end of 1999. During 2000, 2001 and 2002, the Ruble's value fluctuated between 26.9 and 31.8 to 1 US Dollar. As of October 21, 2003, the exchange rate was 30.02 Rubles to 1 US Dollar.

The following table summarizes the exchange rate of the Ruble to 1 US Dollar as of December 31, 2002, 2001 and 2000 and June 30, 2003:

	Exchange Rate
As of December 31,	
2000	28.16
2001	30.14
2002	31.78
As of June 30, 2003	30.35

Source: Central Bank of Russia

The Central Bank of Russia has established strict currency control regulations designed to promote the commercial utilization of the Ruble. Such regulations place restrictions on the conversion of

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Notes to Consolidated Interim Financial Statements as of June 30, 2003 and for the six months period then ended

(In millions of Russian Rubles)

Rubles into foreign currencies and establish requirements for conversion of foreign currency sales to Rubles.

Inflation

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

	<u>Annual inflation</u>
For the year ended December 31,	
2000	20.2%
2001	18.8%
2002	15.1%
For the six months ended June 30, 2003	7.9%

Source: Goskomstat of Russia

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

Taxation

Russian taxes currently include value added tax, corporate income tax (profits tax), turnover based tax, and unified social tax, 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, part I of the Tax Code was enacted. Effective January 1, 2001, part II 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.

4. ACCOUNTING FOR THE EFFECTS OF INFLATION

Characteristics of the economic position of the Russian Federation demonstrate that beginning January 1, 2003 its economy ceased to be hyperinflationary. Respectively, beginning January 1, 2003, the Group does not use provisions of IAS 29 "Financial Reporting in Hyperinflationary Economies", and amounts of all non-monetary assets and liabilities, as well as equity, expressed in the terms of purchasing power of the Ruble as of December 31, 2002 are treated as the basis for the carrying amounts in subsequent financial statements.

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Notes to Consolidated Interim Financial Statements as of June 30, 2003 and for the six months period then ended

(In millions of Russian Rubles)

5. PROPERTY, PLANT AND EQUIPMENT, NET

The net book value of property, plant and equipment as of June 30, 2003 and December 31, 2002 was as follows:

	Buildings and site services	Cable and transmission devices	Other	Construction in progress	Total
Cost or valuation					
At January 1, 2003	24,012	127,811	23,635	3,872	179,330
Additions	-	7	97	1,551	1,655
Disposals	(460)	(3,085)	(298)	(93)	(3,936)
Transfers	18	241	144	(403)	-
At June 30, 2003 (unaudited)	23,570	124,974	23,578	4,927	177,049
Accumulated Depreciation					
At January 1, 2003	(15,823)	(92,369)	(14,860)	-	(123,052)
Depreciation expense	(269)	(2,838)	(1,254)	-	(4,361)
Disposals	359	2,990	166	-	3,515
At June 30, 2003 (unaudited)	(15,733)	(92,217)	(15,948)	-	(123,898)
Net book value at December 31, 2002	8,189	35,442	8,775	3,872	56,278
Net book value at June 30, 2003 (unaudited)	7,837	32,757	7,630	4,927	53,151

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Notes to Consolidated Interim Financial Statements as of June 30, 2003 and for the six months period then ended

(In millions of Russian Rubles)

During 2002 the Company formalized a plan to discontinue using certain satellite systems beginning from February 2003. The Company has accordingly revised its estimate of the remaining period of use of the satellite systems. The carrying amount of prepaid rent as of December 31, 2002 was 210, which has been included in Depreciation in the consolidated statement of operations for the six months ended June 30, 2003. Amounts receivable from the lessor for partial return of prepayments of 545 as of December 31, 2002 were included in other non-current assets (356) and other accounts receivable (189) in the balance sheet as of December 31, 2002. Non-current portion of amounts receivable was discounted using discount rates of 18% for Ruble denominated amounts and 3% for US Dollar denominated amounts. In 2003, amounts receivable from the lessor have been restructured by transfer of a part of short-term receivable amounting to 100 to another party. Amounts receivable from the lessor and the new debtor for partial return of prepayments of 576 in total are included in other non-current assets (248) and other accounts receivable (328).

Capitalized interest for the six months ended June 30, 2003 amounting to 36 is included in property, plant and equipment additions.

6. SUBSIDIARIES

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

Subsidiary	Country of registration	Effective share of the Group as of June 30, 2003
OAO RTC-Leasing ("RTC-Leasing")	Russia	32.27%
RosTelecomLeasing S.A. ("RTCL S.A.")	Switzerland	32.27%
RosTelecomLeasing Cyprus ("RTCL Cyprus")	Cyprus	32.27%
RTDC Holdings, Inc. ("RTDC")	USA	32.27%
ZAO Russian Industrial Bank ("RIB")	Russia	32.27%
ZAO Westelcom ("Westelcom")	Russia	100%
OAO RTComm.RU ("RTComm.RU")	Russia	47.15%
ZAO AKOS ("AKOS")	Russia	29.68%

As of June 30, 2003 and December 31, 2002, the Company effectively owned 32.27% of RTC-Leasing. The principal activity of RTC-Leasing is the leasing of equipment to telecommunication companies in Russia. The principal counterparty as a lessee to finance leases entered into by RTC-Leasing is Rostelecom. In the accompanying consolidated financial statements, finance lease transactions between RTC-Leasing and Rostelecom and other companies of the Group have been eliminated.

RTC-Leasing together with its subsidiaries primarily operates in leasing, and banking and investing segments.

As it was disclosed in the consolidated financial statements for the year ended December 31, 2002, RTC-Leasing performed an additional issuance of ordinary shares which was made in accordance with trilateral agreement ("the Agreement") between Rostelecom and non-state pension fund Rostelecom-Garantiya (the "Initial Shareholders") from one side, RTC-Leasing from the other side, and a consortium of the shareholders (the "Consortium") from the third side. Under the Agreement with the Consortium, the control over RTC-Leasing would pass to the Consortium after the latter performs certain actions intended to increase capitalization and investing attractiveness of RTC-Leasing.

Under additional agreement executed in May 2003, the Consortium obliged to perform certain actions,

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Notes to Consolidated Interim Financial Statements as of June 30, 2003 and for the six months period then ended

(In millions of Russian Rubles)

which should result in:

- Decreasing the Company's gross lease payments to RTC-Leasing by the amount of not less than 1,800 (including VAT) within the six months period from the date of additional agreement;
- Selling ordinary shares of RTC-Leasing owned by Rostelecom (27.12% of total number of ordinary shares) and non-state pension fund Rostelecom-Garantiya (3.02% of total number of ordinary shares) for the total amount of not less than 750 within the six months period from the date of additional agreement;
- Cancellation of all guarantees and pledges provided by Rostelecom in respect of loans payable by RTC-Leasing within the twelve months period from the date of additional agreement.

As of June 30, 2003, the Consortium had not provided any of the services under the Agreement. Accordingly, none of shares issued to the Consortium were vested, and the Group did not recognize stock-based compensation expense in connection with the Agreement during the six months ended June 30, 2003.

The management of the Company believes that it continues to exercise control over the management, policies and day-to-day operations of RTC-Leasing. Therefore, the Company consolidated the financial position and results of operations of RTC-Leasing as of June 30, 2003 and for the six months then ended.

In June 2003, the Company's Board of directors approved actions included in the additional agreement with the Consortium.

In September 2003, the Company's Board of directors approved revising the majority finance lease agreements with RTC-Leasing, amendments to which were signed in October 2003, and the sale of 1,129,873 ordinary shares (27.12% of total number of ordinary shares) of RTC-Leasing currently owned by the Company for not less than 735.

In October 2003, RTC-Leasing cancelled all guarantees provided by Rostelecom in respect to the loans payable by RTC-Leasing, and all pledges under which equipment leased out by RTC-Leasing to Rostelecom was used as collateral.

The management believes that commencing September 2003, reporting segments in which RTC-Leasing operates are considered discontinuing. The management expects that the discontinuance will be completed by the end of 2003.

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Notes to Consolidated Interim Financial Statements as of June 30, 2003 and for the six months period then ended

(In millions of Russian Rubles)

Total assets and liabilities as of June 30, 2003 and December 31, 2002, the results of operations and net cash flows for the six months ended June 30, 2003 pertaining to the discontinuing operations as reported in the accompanying consolidated financial statements were as follows:

	Discontinuing leasing operations		Discontinuing banking and investing operations	
	The six months ended June 30, 2003			
Results of operations:				
Revenue	287		63	
Operating expenses	(62)		(169)	
Net income /(loss) before income tax	(188)		129	
Income tax benefit /(expense)	(227)		341	
Net cash inflows /(outflows):				
Operating activities	(1,341)		(732)	
Investing activities	(2)		(983)	
Financing activities	2,267		-	
	June 30, 2003	December 31, 2002	June 30, 2003	December 31, 2002
Total assets	6,652	10,509	4,983	2,646
Total liabilities	(7,152)	(6,737)	(957)	(2,256)

RTCL S.A. is a 100% subsidiary of RTC-Leasing established in 2000 under legislation of Switzerland. The company was established with the purpose to develop leasing activities of RTC-Leasing, maintain relationships with foreign vendors and fundraising activities.

In April 2002 RTCL S.A. acquired for a cash payment of USD 33 million (1,117 at the exchange rate at date of transaction) 94.9% of ordinary shares in telecommunications holding company RTDC and all rights under the loan receivable from RTDC of USD 48 million (1,615 at the exchange rate at date of transaction). In October 2002 RTCL S.A. purchased the remaining 5.1% shares of RTDC for a cash payment of USD 1.3 million (43 at the exchange rate at date of transaction). After this purchase the Group owned 100% of voting shares of RTDC.

At the date of acquisition by RTCL S.A. in April 2002, RTDC owned 50% of ordinary shares of Westelcom, which main activity is provision of international traffic transition services. Rostelecom owned remaining 50% of ordinary shares, investment in which was treated as an investment in associate using the equity method of accounting. Therefore, in April 2002 the Group obtained control over financial and operating policies of Westelcom. In October 2002, Rostelecom purchased 50% of ordinary shares of Westelcom from RTDC for a cash payment of USD 15 million (489 at the exchange rate at date of transaction). The share of the Company in net assets of Westelcom became equal to 100% after completion of this purchase.

At the date of acquisition by RTCL S.A. RTDC owned 92% of ordinary shares of AKOS, whose main activity constitutes provision of cellular services in Primorskiy region of Russia.

RTComm.RU was established in 2000. Initially, RTC-Leasing owned 100% of ordinary shares of RTComm.RU. As of June 30, 2003 RTC-Leasing and Rostelecom owned 49% and 31% of voting shares of RTComm.RU, respectively. The main activity of RTComm.RU is provision of Internet access services to enterprises and people.

In March 2002 RTC-Leasing acquired 80% of ordinary shares of ZAO Russian Industrial Bank ("RIB") for a cash payment of 93. In July 2002 RTC-Leasing acquired remaining 20% for 11.

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Notes to Consolidated Interim Financial Statements as of June 30, 2003 and for the six months period then ended

(In millions of Russian Rubles)

7. INVESTMENTS IN ASSOCIATES

Movements in investments in associates during the six months ended June 30, 2003 were as follows:

	The six months ended June 30, 2003 (unaudited)
Beginning of year	2,635
Additions, net of dividends received	(12)
Share in results before income taxes	92
Prepayments and services rendered to Global Tel	29
Share of income taxes	(54)
Effect of dilution of share in Golden Telecom	(47)
Reclassification of investments in OAO Moscow Cellular Communications (MCC)	(141)
End of period	2,502

Investments in associates as of June 30, 2003 and December 31, 2002 were as follows:

	Voting share capital. %	June 30, 2003 (unaudited)	December 31, 2002
Telmos	20	155	226
	22		
MCC	(2002: 45.5)	-	145
Delta Telecom	42.5	121	161
Uralwestcom	49	55	67
Golden Telecom, Inc., USA	14.48	1,955	1,874
GlobalTel	51	-	-
Other	-	216	162
Total investments in associates		2,502	2,635

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

The Group owns 45.5% of shares of MCC, of which Rostelecom owns 23.5% and RTDC owns 22%. In September 2003, the Board of directors of Rostelecom approved sale of its share in MCC. Accordingly, investment in MCC is classified as held for sale investment and included in short-term investments (refer to Note 10).

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

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Notes to Consolidated Interim Financial Statements as of June 30, 2003 and for the six months period then ended

(In millions of Russian Rubles)

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

8. LONG-TERM FINANCIAL INVESTMENTS

Long-term financial investments as of June 30, 2003 and December 31, 2002 comprised the following:

	June 30, 2003	December 31, 2002
	(unaudited)	
Loans provided to associates and other companies	73	204
Loans provided to customers	450	69
Notes receivable	108	165
Other long-term financial investments	195	140
Total long-term financial investments	826	578

9. ACCOUNTS RECEIVABLE, NET

Accounts receivable as of June 30, 2003 and December 31, 2002 comprised the following:

	June 30, 2003	December 31, 2002
	(unaudited)	
Trade accounts receivable	8,025	7,192
Less: allowance for doubtful accounts	(2,383)	(2,214)
Trade accounts receivable, net	5,642	4,978
Prepayments	294	218
Prepaid taxes	1,486	1,447
Current portion of lease receivables	1,626	1,282
Other accounts receivable	1,453	921
Less: allowance for doubtful accounts	(292)	(229)
Other accounts receivable, net	4,567	3,639
Total accounts receivable, net	10,209	8,617

OAO Rostelecom**Notes to Consolidated Interim Financial Statements as of June 30, 2003 and for the six months period then ended****(In millions of Russian Rubles)**

10. SHORT-TERM INVESTMENTS

Short-term investments include investments held for sale, which are stated at fair value (except for investment in MCC which is accounted for using the equity method). Short-term investments comprised the following as of June 30, 2003 and December 31, 2002:

	June 30, 2003 (unaudited)	December 31, 2002
Baykalwestcom	-	410
Eniseytelecom	-	420
Nizhegorodskaya Cellular Communications (NCC)	-	802
MCC	141	-
VEB bonds (USD denominated)	209	197
Other bonds and corporate securities	299	247
Liquid bills of exchange	2,612	2,085
Short-term loans	855	-
Other	866	414
Total short-term investments	4,982	4,575

During the six months ended June 30, 2003 RTDC sold its investments in Baykalwestcom, Eniseytelecom and NCC to Svyazinvest companies with the following results:

	Proceeds from sale	Carrying value of investments	Amortization of negative goodwill	Net result
Baykalwestcom	267	(410)	111	(32)
Eniseytelecom	393	(420)	117	90
NCC	632	(802)	227	57
Total	1,292	(1,632)	455	115

Gain/(loss) from sale of investments was included in other non-operating income in the consolidated statement of operations.

Fair value of investments, which are traded on active markets, is based on the market quotes for such investments. Fair value of investments, for which there is no active market, is based on estimated discounted future cash flows.

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11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2003 and December 31, 2002 included cash on hand and in bank accounts as follows:

	June 30, 2003 (unaudited)	December 31, 2002
Cash on hand	19	19
Cash at bank – Rubles	2,272	227
Cash at bank – Foreign currencies	320	572
Short term deposits – Rubles	52	1,447
– Foreign currencies	-	96
Current account with the Central Bank of Russia	260	433
Obligatory reserves with the Central Bank of Russia	103	171
Time deposit with the Central bank of Russia	50	355
Letters of credit	270	322
Total cash and cash equivalents	3,346	3,642

12. SHAREHOLDERS' EQUITY

Share capital

The authorized share capital of the Company as of June 30, 2003 and December 31, 2002 comprised 1,634,026,541 ordinary and 242,832,000 non-redeemable preferred shares. The par value of both ordinary and preferred shares amounted to Rbl 0.0025.

As of June 30, 2003 and December 31, 2002 the issued and outstanding share capital was as follows:

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

There were no share transactions during the six months ended June 30, 2003.

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

The share capital of the Company on its incorporation has been indexed, to account for the effects of inflation from that date through December 31, 2002. The share capital in the Russian statutory accounts at June 30, 2003 and December 31, 2002 amounted to 2,428,819 nominal Rubles.

Ordinary shares carry voting rights with no guarantee of dividends.

Distributions

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

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

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

Distributable earnings of all entities included in the Group are limited to their respective retained earnings, as mandated by statutory accounting rules. Statutory retained earnings of the Company as of June 30, 2003 and 2002 amounted to 9,326 and 6,797, respectively.

Dividends

Dividends payable to holders of preferred and ordinary shares in respect of the years ending December 31, 2002 and 2001 were as follows:

	2002	2001
Dividend – preferred shares	310	235
Dividend – ordinary shares	396	164
	706	399
	Rbl	Rbl
Dividend per preferred share	1.27	0.96
Dividend per ordinary share	0.54	0.22

During the six months period ended June 30, 2003, the Company paid dividends of 12.

13. MINORITY INTEREST

	The six months ended June 30, 2003 (unaudited)
At beginning of year	2,825
Effect of increase of share capital of subsidiaries	(8)
Minority interest in net income of subsidiaries	623
Dividends paid to minority shareholders of subsidiaries	(26)
At the end of period	3,414

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14. INTEREST BEARING LOANS

The interest bearing loans as of June 30, 2003 and December 31, 2002 were as follows:

	June 30, 2003 (unaudited)	December 31, 2002
Maturity		
Current portion of interest bearing loans	2,697	4,529
Between one to two years	1,933	919
Between two to three years	1,872	641
Between three to four years	764	479
Between four to five years	143	278
Non-current portion of interest bearing loans	4,712	2,317
Total interest bearing loans	7,409	6,846

As of June 30, 2003 and December 31, 2002 interest bearing loans, which are mostly denominated in foreign currencies are summarized as follows:

	June 30, 2003 (unaudited)	December 31, 2002
US Dollars (US\$)	3,546	826
Japanese Yen (JPY)	226	3,089
EURO	48	150
Foreign currency denominated loans	3,820	4,065
Russian Ruble denominated loans	3,589	2,781
Total interest bearing loans	7,409	6,846

In June 2003, according to the Government decision #221 of April 16, 2003, Rostelecom's overdue Yen-denominated debt (principal of 11,601 million Japanese Yen (2,976) and accrued interest) to Vnesheconombank was restructured by converting it into promissory notes issued to Alfa-Bank amounted to US\$ 98.6 (2,992 at the exchange rate as of June 30, 2003). As a result, Rostelecom's principal debt to the Ministry of Finance and accrued interest were repaid in full, and the Company ceased to be in technical default in respect of such debt. The promissory notes are repayable to Alfa-Bank within 36 months in six semi-annual installments and are included in respective portions in long-term (1,980) and short-term (1,012) portions of long-term debt. The promissory notes bear interest of 5.94% per annum. According to the terms of agreement with Alfa-Bank, had the Ministry of Finance not written off the late payment penalties, amounted to 2,837 million Japanese Yen (720), Alfa-Bank would have to refund Rostelecom by returning 2 promissory notes amounting to US\$ 24.5 million (737). The amount of 737 was recognized as gain from debt restructuring in the consolidated statement of operations. According to the Ministry of Finance's resolution of September 16, 2003, Rostelecom's fines and penalties in the amount of 2,837 million Japanese Yen (749 at the exchange rate as of date of transaction) were written off.

As of June 30, 2003, Other accounts receivable include the amount of 733 representing obligation of Alfa-Bank to refund the promissory notes. Fines and penalties in the amount of 749 are included in Accounts payable and accrued expenses.

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In February, 2003, the Company has entered into two credit agreements with Vneshtorgbank. Total amount of the credit lines is 986 million Japanese Yen, payable up to 2007 in equal semi-annual installments and bearing interest of 5.75% per annum. Total outstanding amount as of June 30, 2003 is 890 million Japanese Yen (225). 34 are included into current portion of long-term debt.

During the six months ended June 30, 2003, RTC-Leasing settled the following loans:

- A credit line provided by Sberbank with maximum amount of USD 30 million. The interest rate equals 20% p.a.
- A credit line provided by Sberbank with maximum amount of USD 35 million. The interest rate equals 20% p.a.
- A credit line provided by Sberbank with maximum amount of 152. The interest rate equals 18% p.a.
- A loan of EURO 2.9 million provided by ING Bank (Eurasia). Interest rate equals EURIBOR plus 5% p.a.

During the six months ended June 30, 2003 RTC-Leasing has drawn down the following loans:

- A credit line provided by Vneshtorgbank with maximum amount of USD 10 million. Maturity date is December 4, 2003. Interest rate equals 20% p.a. Rostelecom pledged its telecommunication equipment (refer to Note 6). The loan is denominated in rubles. Total loan amounted to 30 and represented current portion.
- A credit line provided by Rosbank with maximum amount of 312 maturing on May 26, 2004. The interest rate equals 14,5% p.a. The loan is denominated in rubles. Total loan amounted to 130 and represented current portion.
- A loan of USD 414 thousand provided by Sumitomo Corporation, maturing on May 27, 2005. The loan is secured by a guarantee of RTComm.RU. Also, RTC-Leasing pledged its telecommunication equipment to Sumitomo Corporation. Interest rate equals LIBOR plus 6.5% p.a. Ruble equivalent of the loan amounted to 12 with current portion of 6.
- A credit line provided by Promsvyazbank with maximum amount of 100 maturing on October 16, 2003. The interest rate equals 13% p.a. Total loan amounted to 56 and represented current portion.
- A credit line provided by Severo-Zapadny Telecombank with maximum amount of 80 maturing on April 30, 2004. The interest rate equals 11-14% p.a. Total loan amounted to 54 represented current portion.

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15. REVENUE

Revenue comprised the following for the six months ended June 30, 2003:

	For the six months ended June 30, 2003 (unaudited)
Revenue from local operators	
Telephone – international	2,377
Telephone – national	2,944
Other income from local operators	955
	6,276
Revenue from subscribers	
Telephone – international	1,481
Telephone – national	1,733
Internet access	559
Leased lines	392
Television and radio broadcasting	270
Cellular services	59
	4,494
Revenue from foreign operators	
Telephone	1,872
Telex, telegraph and other	237
Leased lines	91
	2,200
Other revenue	783
Total revenue	13,753

16. SEGMENT INFORMATION

The Group operates in several industry segments as shown below:

Segment	Revenue	Segment result
Telecommunications	13,462	1,013
Leasing	287	225
Banking and investing	4	(106)
Total	13,753	1,132

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17. CONTINGENCIES

a) Legal proceedings

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

b) Taxation environment

Russian tax legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three years. However, management believes that adequate provision has been made for all material taxation liabilities existing as of June 30, 2003.

As a result of the recently performed comprehensive tax inspection covering the periods of 1999, 2000 and 2001, the Ministry of Taxes and Levies of the Russian Federation assessed 2,488 of additional taxes, including fines and penalties payable by Rostelecom. In the opinion of the management of the Group, the tax positions taken by the Company are appropriate, and the Company will prevail in court. Management cannot measure reliably the total amount of potential losses. Accordingly, no accrual has been made for the assessment in the accompanying consolidated statement of operations.

c) Licenses

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

In August 1996, the Company was granted three cellular licenses for operation in Novosibirsk, Khabarovsk and Amurskaya areas. The licenses gave the Company the right to provide wireless services on the GSM 900 standard for 10 years from the date of license registration (until October 2006). The Company was obliged to make the license fee payment in total amount of \$16.5 million for three licenses. No payments were made as of June 30, 2003.

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

d) Restructuring

There have been a number of announcements by the Government and the Svyazinvest Group with respect to the planned restructuring of the national telecommunications sector. In its Program of Development of the Telecommunications Industry, presented to the Federal Government in December

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2000, the Ministry of Communications has indicated that it will not contemplate a change to the Group's status as monopoly supplier of long distance and international communications until 2005-2006 at the earliest. This position is confirmed during the negotiations related to Russia's entrance into the World Trade Organization.

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

e) Insurance matters

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

18. SUBSEQUENT EVENTS

Beginning August 1, 2003, according to the Antimonopoly Ministry's decision, the Company uses a new system of tariffs for intercity traffic for local operators. For this reason the Group expects significant increase of both revenues and charges recognized in the statement of operations and related to local operators.