JSC “North-West Telecom”

Consolidated Financial Statements

Years ended December 31, 2003 and 2002
with Report of Independent Auditors

JSC “North-West Telecom”

Consolidated Financial Statements

Years ended December 31, 2003 and 2002

Contents

Independent Auditors' Report

To the Shareholders and Board of Directors
of JSC "North-West Telecom"

1. We have audited the accompanying consolidated balance sheet of JSC "North-West Telecom" (a Russian open joint-stock company, hereinafter – "the Company"), as of December 31, 2003, and the related statements of operations, cash flows and shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as discussed in paragraphs 3 and 4, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As described in Note 2 "Summary of Significant Accounting Policies" and Note 26 "Pension Plans and Employee Benefits", the Company has not determined or disclosed its assets and liabilities under defined benefits plans in accordance with International Accounting Standard ("IAS") 19 "Employee Benefits". We were not able to quantify the adjustments, if any, to the financial statements. This matter also caused us to qualify our opinion on the financial statements ended December 31, 2002.

4. As described in Note 2 "Summary of Significant Accounting Policies" and Note 10 "Property, Plant and Equipment", the Company's accounting records relating to property, plant and equipment are not designed to support their presentation in accordance with IAS 16, "Property, Plant and Equipment", IAS 29, "Financial Reporting in Hyperinflationary Economies" and IAS 36, "Impairment of Assets". As such, certain estimates were made by management to present property, plant and equipment in the accompanying financial statements. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the adjustments, if any, which might have been determined to be necessary had additional evidence been available to better analyze the assumptions and estimates made by management. This matter also caused us to qualify our opinion on the financial statements ended December 31, 2002.

5. As a result of the matters described in paragraphs 3 and 4 above, adjustments, if any, could materially affect (i) property, plant and equipment, equipment contributions, assets and liabilities under defined benefits plans, deferred income tax liability, and retained earnings as of December 31, 2003, (ii) depreciation expense, loss on disposals of property, plant and equipment, income tax expense and net income for the year ended December 31, 2003 and the corresponding amounts, and (iii) related disclosures.

6. In our opinion, except for the effects on the financial statements of such adjustments, if any, from the matters referred to in paragraphs 3 and 4 above, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO "North-West Telecom" as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

7. Without qualifying our opinion, we draw your attention to Note 1 "General Information" referring to an excess of 1,780,286 thousand Rubles of the Company's current liabilities over current assets as at December 31, 2003, and disclosing management's plans to maintain current liquidity and reduce working capital deficit.

8. As described in Note 1 "General Information", the Company was the subject of a reorganization that was approved by the shareholders on November 28, 2001. The Company accounted for the merger based on the principles of uniting of interests as described in IAS 22 "Business Combinations". In applying this method, the Company reflected amounts in the financial statements as if the entities had been combined from January 1, 2002, the earliest period presented.

July 31, 2004

JSC "North-West Telecom"

Consolidated Balance Sheets

(In thousands Rubles)

	Notes	December 31 2003	December 31 2002, *(as restated, see Note 2)*
ASSETS			
Non-current assets			
Property, plant and equipment	**10**	**17,009,261**	16,217,463
Intangible assets and goodwill	**11**	**587,390**	112,840
Investments in associated companies	**13**	**82,622**	246,160
Long term financial investments	**14**	**662,283**	693,811
Other financial assets	**18**	**24,942**	29,355
Advances to equipment suppliers	**15**	**130,009**	119,687
Total non-current assets		**18,496,507**	17,419,316
Current assets			
Inventories, net	**16**	**229,980**	225,931
Accounts receivable, net	**17**	**995,434**	999,943
Short-term financial investments	**14**	**4,834**	4,924
Other current assets	**19**	**620,288**	670,730
Cash and cash equivalents	**20**	**282,438**	339,176
Total current assets		**2,132,974**	2,240,704
TOTAL ASSETS		**20,629,481**	19,660,020
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Preference shares	**21**	**202,023**	202,023
Ordinary shares	**21**	**735,917**	735,917
Treasury shares	**21**	**(8,998)**	-
Inflation impact on share capital		**1,724,089**	1,724,089
Retained earnings and other reserves		**11,132,060**	10,856,962
Total shareholders' equity		**13,785,091**	13,518,991
Minority interest		**22,153**	6,716
Non-current liabilities			
Long-term borrowings	**22**	**1,028,120**	1,125,727
Obligations under finance leases	**23**	**494,729**	132,316
Equipment contributions		**218,215**	221,994
Deferred income tax liability	**7**	**1,167,483**	1,368,521
Other non-current liabilities		**430**	23,692
Total non-current liabilities		**2,908,977**	2,872,250
Current liabilities			
Accounts payable and accrued liabilities	**24**	**1,472,934**	1,457,542
Taxes payable and social security payable	**25**	**646,080**	593,072
Dividends payable	**9**	**88,378**	78,877
Short-term borrowings	**22**	**258,621**	347,500
Current portion of long-term borrowings	**22**	**1,212,078**	653,563
Current portion of obligations under finance leases	**23**	**235,169**	131,509
Total current liabilities		**3,913,260**	3,262,063
Commitments and contingencies	**27**	**-**	-
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**20,629,481**	19,660,020

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

JSC "North-West Telecom"

Consolidated Statement of Operations

(In thousands Rubles)

	Notes	2003	2002, *(as restated, see Note 2)*
Revenues	**4**	**12,381,322**	10,790,609
Operating expenses			
Wages, salaries, other benefits and social contributions		**(3,938,787)**	(3,240,161)
Depreciation and amortization		**(1,902,695)**	(1,737,314)
Materials, repairs and maintenance, utilities		**(1,079,199)**	(1,167,841)
Taxes other than income tax		**(238,135)**	(336,866)
Interconnection charges – other operators		**(2,277,619)**	(1,898,095)
Doubtful debt provision expense		**(329,406)**	(108,440)
Loss on disposals of property, plant and equipment		**(113,661)**	(167,311)
Other operating expenses	**5**	**(1,316,939)**	(992,522)
Total operating expenses		**(11,196,441)**	(9,648,550)
Operating income		**1,184,881**	1,142,059
Loss from participation in associates		**(25,275)**	(1,421)
Interest expense, net	**6**	**(267,204)**	(278,584)
(Loss) income from financial investments		**(39,122)**	27,202
Other expenses, net		**(114,418)**	(19,460)
Foreign exchange loss		**(69,451)**	(189,497)
Monetary gain		**-**	130,414
Income before income tax and minority interest		**669,411**	810,713
Income tax expense	**7**	**(259,633)**	(335,855)
Income before minority interest		**409,778**	474,858
Minority interest		**(15,437)**	(1,260)
Net income		**394,341**	473,598
Preferred dividends	**9**	**(72,122)**	(28,283)
Net income available to ordinary shareholders		**322,219**	445,315
Basic and diluted earnings per ordinary share, Rubles	**8**	**0.44**	0.61

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

JSC “North-West Telecom”

Consolidated Statement of Operations

(In thousands Rubles)

	2003	2002, *(as restated, see Note 2)*
Cash flows from operating activities		
Income before income tax and minority interest	**669,411**	810,713
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Foreign exchange loss	**69,451**	189,497
Monetary gain	**-**	(130,414)
Depreciation and amortization	**1,902,695**	1,737,314
Loss on disposal of property, plant and equipment	**113,661**	167,311
Loss from participation in associates	**25,275**	1,421
Interest expense, net	**267,204**	278,584
Doubtful debt provision expense	**329,406**	108,440
Other non-monetary gains, net	**(2,154)**	-
Loss (income) from financial investments and investments in associated companies	**39,122**	(27,202)
Operating profit before working capital change	**3,414,071**	3,135,664
Increase in accounts receivable	**(333,264)**	(317,095)
Decrease (increase) in other current assets	**55,461**	(278,646)
Increase in inventories	**(24,497)**	(13,841)
Increase (decrease) in accounts payable and accrued liabilities	**(64,016)**	910,330
Increase (decrease) in taxes and social contributions payable	**58,951**	(424,963)
Cash flows from operating activities	**3,106,706**	3,011,449
Interest paid	**(141,990)**	(233,195)
Profits tax paid	**(466,614)**	(343,018)
Net cash flows provided by operating activities	**2,498,102**	2,435,236
Cash flows from investing activities:		
Acquisition of property, plant and equipment and intangibles	**(2,587,632)**	(2,213,888)
Proceeds from sale of property, plant and equipment	**136,104**	70,535
Sale (acquisition) of financial investments and other financial assets	**116,126**	3,607
Interest received	**24,044**	18,400
Dividend received	**949**	-
Net cash flows used in investing activities	**(2,310,409)**	(2,121,346)
Cash flows from financing activities:		
Proceeds from borrowings	**2,161,471**	1,637,359
Repayment of borrowings	**(2,438,767)**	(1,159,067)
Proceeds from bond issue, net	**710,685**	300,000
Repayment of finance lease obligations	**(185,675)**	(118,963)
Repayment of supplier credits	**(382,403)**	(691,281)
Dividend paid	**(109,742)**	(105,988)
Net cash flows used in financing activities	**(244,431)**	(137,940)
Effect of hyperinflation on cash and cash equivalents	**-**	(42,407)
Increase (decrease) in cash and cash equivalents	**(56,738)**	133,543
Cash and cash equivalents at the beginning of year	**339,176**	205,633
Cash and cash equivalents at the end of year	**282,438**	339,176
Non-monetary transactions:		
Property, plant and equipment received under lease contracts	**607,524**	223,764
Equipment contributions	**10,490**	7,970

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

JSC “North-West Telecom”

Consolidated Statements of Changes in Shareholders’ Equity

(In thousands Rubles)

	Note	Shareholders’ equity			Accumulated inflationary effect on charter capital	Retained earnings and other reserves	Total shareholders’ equity
		Preferred shares	**Ordinary shares**	**Treasury shares**			
Balance as of December 31, 2001 *(as restated, see Note 2)*		**202,023**	**735,917**	**-**	**1,724,089**	**10,482,806**	**13,144,835**
Net profit for the year *(as restated, see Note 2)*		-	-	-	-	473,598	**473,598**
Dividends *(as restated, see Note 2)*	9	-	-	-	-	(99,442)	**(99,442)**
Balance as of December 31, 2002 *(as restated, see Note 2)*		**202,023**	**735,917**	**-**	**1,724,089**	**10,856,962**	**13,518,991**
Net profit for the year		-	-	-	-	394,341	**394,341**
Dividends	9	-	-	-	-	(119,243)	**(119,243)**
Redemption of treasury shares		-	-	(8,998)	-	-	**(8,998)**
Balance as of December 31, 2003		**202,023**	**735,917**	**(8,998)**	**1,724,089**	**11,132,060**	**13,785,091**

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

1. General Information

Authorization of Accounts

The consolidated financial statements of OAO “North-West Telecom” and its subsidiaries (the ”Company”) for the year ended December 31, 2003 were authorized for issue by the General Director and Chief Accountant order of July 30, 2004.

The Company

OAO “North-West Telecom” is an open joint stock company incorporated in the Russian Federation.

The state-owned open joint-stock company OAO “Svyazinvest” owned 50.5% of the Company’s voting stock as of December 31, 2003. OAO “Svyazinvest” is a national holding that controls the majority of wire line service providers in Russia as well as some other telecommunication and related assets.

The principal business of the Company includes:

- Local and intraband telephony;
- Long distance telephony;
- Channel lease;
- Telegraph services;
- 450 MHz cellular communication services;
- Data transmission services;
- Telematic services;
- Mobile radio services;
- Wire broadcasting network radio translation;
- Direct ‘on-air’ television and radio program transmission and extra data transmission;
- Cable TV broadcasting services.

The Company operates in the North-West region of the Russian Federation.

The average number of the employees on the Company’s payroll in 2003 was 28,625 (2002 – 30,455).

The registered address of the Company is: Russia, 191186, St. Petersburg, Gorokhovaya St., 14/26.

1. General Information (continued)

2002 Reorganization

In 2001 the Company's management started reorganization by obtaining shareholder approval to merge the eight regional operators of OAO "Svyazinvest" group wherein 262,860 thousand ordinary shares and 87,582 thousand preferred shares of the Company were exchanged for 100% voting and preferred shares in the regional companies as presented below:

Regional Enterprise	Shares issued by the Company Ordinary	Shares issued by the Company Preference	Exchange Ratio
OAO "Artelecom", Arkhangelsk	54,997,606	18,333,163	0.420
OAO "Electrosvyaz", Pskov	15,610,781	5,203,638	1.610
OAO "Electrosvyaz", Kaliningrad	38,636,440	12,878,823	7.110
OAO "Electrosvyaz", Karelia	35,779,115	11,926,568	0.145
OAO "Electrosvyaz", Vologda	16,660,997	5,553,754	2.345
OAO "Novgorodtelecom", Velikiy Novgorod	23,455,458	7,790,694	229.750
OAO "Cherepovetselectrosvyaz", Cherepovets	15,495,009	5,165,031	53.525
OAO "Murmanelectrosvyaz", Murmansk	62,224,850	20,730,266	2.000
Total	**262,860,256**	**87,581,937**	

The merger was completed and effective in November 2002. Transaction costs of 137,425 thousand Rubles were expensed. In 2003 the merged company's structure comprised a Head Office and nine regional branches.

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

Tariff Setting Procedures

Under Russian anti-monopoly regulations, operating units of OAO "Svyazinvest", as monopoly carriers, are subject to government tariff regulations restricting the tariffs for their services. The tariffs set by the federal authorities do not generally cover the costs of providing telecommunication services and required capital expenditures for network development. While in 2003 the Company produced an operating income of 1,184,881 thousand Rubles and generated operating cash flows of 2,498,102 thousand Rubles, the existing tariffs formation procedure is one of the major factors resulting in excess of current liabilities over current assets.

Liquidity and Financial Resources

As of December 31, 2003, the Company's current liabilities exceeded its current assets by 1,780,286 thousand Rubles (2002 - 1,021,359 thousand Rubles). As a result, uncertainties exist as to the Company's liquidity and sufficient future capital resources.

1. General Information (continued)

Liquidity and Financial Resources (continued)

Growing competition on the telecommunications market makes it necessary for the Company to continue large-scale investment in modernization of its existing network. In the previous years the long-term debt market for the Company to finance its investment projects remained limited due to the relatively high cost of such borrowings. Presently the long-term debt market situation has improved, and the long-term financing costs went down accordingly.

However the reporting period saw a decline in all liquidity ratios of the Company, largely due to nonuse of long-term borrowing schemes. As a result, the share of short-term liabilities in the balance sheet structure significantly increased along with a certain reduction in the share of current assets.

The key factors contributing to the growth of short-term liabilities in the reporting period include:

- Reclassification of the first issue bonds from long-term liabilities to short-term liabilities;
- Increase in short term trade liabilities, including due to the lease payments to be effected in 2004.

Management believes that future cash flows from operating activities will be sufficient to finance ongoing operations. Investment activities will be financed from operating cash flows and long-term borrowings in equal parts. The existing short terms liabilities and borrowings may be prolonged or refinanced as necessary. Management also expects to continue to be able to delay payment for certain operating costs to manage its working capital requirements, if necessary.

Besides, in 2004 the Company intends to reduce the share of short-term liabilities in the balance sheet structure and, as a consequence, improve its liquidity ratios through implementation of a debt restructuring and debt service cost reduction policy, by taking the following measures:

- Secondary placement of 2nd issue bonds held in treasury with nominal value of 750 million Rubles maturing not earlier than October 4, 2005;
- 3rd bond issue of 2,5 – 3 billion Rubles in the forth quarter, 2004 – the first half of year 2005 with maturities ranging from 3 to 6 years;
- Conclusion of credit agreements with the North-West bank of Sberbank RF (OAO) to obtain long-term financing within the limit of 500 million Rubles established for the Company.

In addition to debt restructuring, management expects further positive effect on the Company’s financial standing from implementation of a centralized treasury function since January 1, 2004, that will in particular allow to optimize the Company’s borrowings policy.

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

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Management Estimates

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

Prior Period Adjustments and Reclassifications

Management of the Company chose to restate opening retained earnings and the results for the year ended December 31, 2002 for previously unrecorded adjustments. These adjustments relate to invoices for interconnection services (these amounts had previously been reflected in the period invoiced) and dividends due to the holders of preferred shares (the dividends had been previously reflected in the reporting period when formally declared).

The effect of these adjustments on previously reported amounts is as follows:

	As previously reported	**Prior period adjustment**	**As restated**
Shareholders' equity, January 1, 2002	13,295,269	(150,434)	**13,144,835**
Net income	482,872	(9,274)	**473,598**
Dividends	(133,769)	34,327	**(99,442)**
Shareholders' equity, December 31, 2002	13,644,372	(125,381)	**13,518,991**

Certain amounts in the Company's consolidated financial statements as of December 31, 2002 and for the year then ended were reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies (continued)

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to December 31, 2003 and 2002.

Subsidiaries

A subsidiary is an entity that is controlled by the Company, directly or indirectly, generally through ownership, of more than 50% of the voting share capital of the entity. These consolidated financial statements include the assets and liabilities, and revenues and expenses of the Company and of subsidiary undertakings, on a line-by-line basis.

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred from the Company. Minority interests reflect the interests in subsidiaries not held by the Company (see Note 12).

Where subsidiaries are not controlled throughout the year, consolidated results include the results of those entities for that part of the year during which control existed, except where the Company has applied the uniting of interests method in accordance with IAS 22 “Business Combination”. Under the uniting of interests method, the financial statement items of the combining entities for the period in which the combination occurs are included in the consolidated financial statements as if they had been combined from the beginning of the first period presented.

Where the purchase method is applied to account for the acquisition of subsidiaries in accordance with IAS 22, identifiable assets and liabilities of subsidiaries are stated at their fair value as of the acquisition date. Minority interest at the date of acquisition is determined in proportion to minority shareholders' share in the fair value of the assets and liabilities of the subsidiary at this date. The share of minority shareholders is estimated on the basis of the common voting shares and preferred shares owned by shareholders that do not exercise control over the subsidiary.

Balances and transactions between the Company and subsidiary undertakings, as well as any income from intercompany transactions are eliminated. Income (loss) from intercompany transactions is identified and eliminated only in cases where the assets transferred under relevant transactions have not been sold to third parties (i.e. non-Company entities) and are carried in the balance sheet of a Company entity as of the balance sheet date.

Associates

An associate is an entity in which the Company has significant influence, which is usually demonstrated by the Company owning between 20% and 50% of the voting share capital. The Company’s investments in associates are accounted for under the equity method from the beginning of significant influence over the associate until the time when the Company ceases to have such significant influence.

Under the equity method, the investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Company’s share of net assets of the associates, less any impairment in value. The income statement reflects the Company’s share of the results of operations of the associates.

Unrealized gains and losses arising from transactions with associates are eliminated in proportion to the Company's interest in the associates by adjusting the book value of investments.

2. Summary of Significant Accounting Policies (continued)

Goodwill

For investments in subsidiaries and associates, any excess of the cost of acquisition over the Company’s share in the fair value of net identifiable assets and liabilities of the acquired entity is recognized as goodwill. Goodwill is amortized on a straight-line basis over its useful life as determined by management. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortization and any impairment in value.

Goodwill on acquisition of associates is included in the carrying amount of investments in associates.

Upon disposal of investments in a subsidiary or an associate the remaining balance of unamortized goodwill is taken to gains or losses from such disposal.

Accounting for the Effects of Inflation

In 2000 – 2002 the Russian Federation met the definition of a hyperinflationary economy, as defined by International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (IAS 29). The inflation rate based on the Russian consumer price index (“CPI”), as calculated by the State Committee on Statistics (Goskomstat), was 15.1% for 2002 (18.6% and 20.2% for 2001 and 2000, respectively). Although the cumulative inflation index for the three-year period ended in 2002 was less than 100%, it was considered that the remaining criteria set forth by IAS 29 indicated that the Russian Federation continued to experience conditions that meet the definition of a hyperinflationary economy during 2002.

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. In applying IAS 29, the Company used conversion factors derived from the Russian CPI.

Effective from January 1, 2003, international accounting and financial reporting bodies have determined that the Russian Federation no longer meets the criteria of IAS 29 for hyperinflation. Beginning 2003, the Company ceased applying IAS 29 and only recognizes the cumulative impact of inflation indexing through December 31, 2002, on non-monetary elements of the financial statements. Transactions undertaken subsequent to December 31, 2002 are reported at actual, nominal amounts except for those involving non-monetary assets and liabilities acquired prior to January 1, 2003. Results of operations (including gains and losses on disposal) involving such assets and liabilities are recognized based on the “restated cost”, which was calculated by applying through December 31, 2002 the relevant conversion factors to the carrying values of these assets and liabilities.

Foreign Currency Translation

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

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

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of each group of assets as follows:

Buildings and constructions	20-50 years
Analogue switches	20 years
Digital switches	10-15 years
Other telecommunications equipment	20 years
Vehicles	5 years
Computers, office and other equipment	3-5 years
Land	Is not depreciated

Construction in progress is recorded as the total of actual expenses incurred by the Company from the beginning of construction to the reporting date, adjusted for the effect of inflation from the date when such expenses occur to the reporting date in accordance with IAS 29. This includes costs attributable to asset acquisition, construction and other direct costs. Accrual of depreciation begins when fixed assets are put into operation.

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

IAS 36 "Impairment of Assets" requires that the recoverable amount of an asset, including property, plant and equipment, should be estimated whenever there is an indication that the assets may be impaired.

IAS 36 requires that the recoverable amount of the assets in question not to exceed the higher of net selling price and value in use. Net selling price is the amount obtainable from the sale of assets in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash–generating unit to which the asset belongs.

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

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

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

2. Summary of Significant Accounting Policies (continued)

Equipment Contributions

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

Equipment contributions that do not generate any future income for the Company are not recognized.

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

Intangible Assets

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

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

Research and Development Costs

Research and development costs are expensed as incurred.

Investments

Financial investments include the following three categories: held-to-maturity investments, investments available-for-sale and trading securities.

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments that are classified as trading are measured at their fair value. Gains or losses on trading securities are recognized in the income statement and included into income (loss) from financial investments.

Investments that are intended to be held to maturity, are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

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

2. Summary of Significant Accounting Policies (continued)

Inventories

Inventories are priced at the lower of cost or net realizable value. Cost is determined using the average weighted cost method.

Accounts Receivable

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

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in the Company’s bank accounts, as well as cash deposits and short-term investments with original maturities of three months or less.

Interest-Bearing Loans and Borrowings

All interest-bearing loans and borrowings are initially recognized at cost of consideration received. After initial recognition, interest-bearing loans and borrowings are subsequently measured at cost plus accrued interest calculated using the effective interest rate method.

Non Interest-Bearing Loans and Borrowings

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

Treasury shares

Treasury shares are recorded in the balance sheet as a decrease of the shareholders’ equity in the amount of the acquisition costs. The Company does not recognize gains/losses from transactions with treasury shares. The differences arising from transactions with treasury shares are charged to the capital accounts.

Provisions

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

Pensions and Other Post-Employment Benefits

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

2. Summary of Significant Accounting Policies (continued)

Pensions and Other Post-Employment Benefits (continued)

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

Under collective bargaining agreements, the Company also provides post-employment retirement benefits by using defined contribution plans and defined benefit plans. The majority of the Company’s employees are eligible to participate under such defined benefit plans based upon a number of factors, including years of service, age and compensation.

Defined contribution plan is a post-employment benefit plan under which the Company’s liability is limited solely to the amount of a contribution it agrees to pay into a fund. In this case all actuarial and investment risks will be borne by employees.

Under defined benefit plans, the Company’s obligation is to provide the agreed benefits to current and former employees whereby actuarial and investment risks fall, in essence, on the Company.

Defined Benefit Plans

Employees meeting specific eligibility criteria are eligible to pensions under a defined benefit plan.

The Company has been unable to determine or disclose the assets and liabilities under the existing defined benefit plans as required by IAS 19 “Employee Benefits”.

Defined Contribution Plans

The Company recognizes contributions under a defined contribution plan in the period to which they are attributable.

Leases

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

Capitalized leased assets are depreciated using the straight-line method over the estimated economic useful life of the asset as for own assets within the same class, with consideration of the contractual terms the assets can be used.

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

2. Summary of Significant Accounting Policies (continued)

Revenue

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured.

The Company categorizes the revenue sources in thirteen major categories:

- Long distance telephone calls - national;
- Long distance telephone calls - international;
- Local telephone calls;
- Installation and connecting fees;
- Documentary services;
- Mobile telecommunication services;
- Radio and TV broadcasting;
- Data transfer and telematic services;
- New services;
- Rent of telephone channels;
- Revenues from telecommunication operators;
- Other telecommunications services;
- Other revenues.

Long distance calls (national and international)

Revenues from long distance services depend on time of call, duration of call, destination of call, type of service used, subscriber category and the applied rate plan. Customers of the Company use the service via installed fixed telephone, as well the service could be accessed by means of pay-phone. The Company charges long distance fees on a per-minute basis. The Company recognizes revenues related to the long distance services in the period when the services are rendered.

Local telephone calls

Revenue from the local telephone services depends on the duration of the telephone connections and subscription fee, while time driven billing scheme is applied. If fixed payment scheme is applied then revenue depends on the subscription fee only. Customers of the Company use the service via installed fixed telephone, as well the service could be accessed by means of pay-phone. The Company recognizes revenues related to the monthly network fees for local services in the month the service is provided to the subscriber.

Installation and connecting fees

The Company recognizes installation and connecting fees for indefinite contracts with its subscribers as revenues when the installation and connection are complete.

Documentary services

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

Mobile telecommunication services

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

2. Summary of Significant Accounting Policies (continued)

Revenue (continued)

Radio and TV broadcasting

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

Data transfer and telematic services

The Company recognizes revenues related to data transfer and telematic services in the period when the services are rendered.

New services

Major revenues from new services include Internet services, ISDN, IP-telephony, intelligent network services. The Company recognizes revenues related to new services in the period when the services are rendered.

Rent of telephone channels

Major revenues are recognized from the following services: rent of intercity and international, digital, analogue and telegraph channels. The Company recognizes revenues from the rent of channels in the period when the services are rendered.

Revenues from telecommunication operators

Revenues collected from telecommunication operators for transmission of their traffic (incoming calls), and interconnection payments to the operators for the Company’s traffic are recorded separately as revenue from telecommunication operators and interconnection charges, correspondingly, when the services are provided.

Other telecommunication services

Other telecommunication services primarily consist of revenues received by public switched telephone network (PSTN) stations from the rent of direct lines and local junctions. The Company recognizes revenues related to other services in the period when the services are rendered.

Other revenues

Other revenues primarily consist of revenues received from manufacturing of the telecommunication equipment and its technical maintenance, transportation services, recreation services and sale of products and services provided by auxiliary units.

2. Summary of Significant Accounting Policies (continued)

Income Tax

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

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

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

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

Deferred tax liability is recognized for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied: the Company is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

Value-Added Tax

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

3. Segment Information

The Company mostly operates in one industry, i.e. provision of wireline telecommunication services, on the territory of the North-West region of Russia. The Company’s structure is based on territorial units, which service the corresponding parts of the Company’s network. The Company’s management considers that the Company operates in one geographical and business segment, and evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Company as a whole.

4. Operating Revenues

	2003	2002
Revenue from subscribers		
Local telephone services	**4,265,202**	3,563,497
Long distance telephone services - national	**3,023,356**	3,062,396
Long distance telephone services - international	**1,452,379**	1,460,514
Other telecommunications services	**714,062**	587,848
Installation and connecting fees	**595,214**	548,949
New services	**437,251**	264,990
Documentary services	**112,231**	128,272
Data transfer and telematic services	**103,449**	63,976
Rent of telephone channels	**95,243**	73,867
Mobile telecommunications services	**53,310**	14,907
Radio and TV broadcasting	**22,534**	19,972
Total revenue from subscribers	**10,874,231**	9,789,188
Revenue from telecommunication operators		
Transit of traffic	**1,077,438**	637,161
Other services	**429,653**	364,260
Total	**12,381,322**	10,790,609

Other telecommunication services mainly include revenues from payphone network, one time services like updating subscriber's data, sales of handsets and accessories.

Mobile telecommunication services primarily consist of air time charges, fees for additional mobile services and roaming charges to other mobile operators for services to visiting roaming clients.

Revenue from telecommunication operators primarily consists of charges for incoming traffic from OAO "Rostelecom" as well as telecommunication operators affiliated with OAO "Telecominvest" (Note 29).

Other services primarily consist of revenue from transportation services, maintenance of recreational facilities and other social infrastructure and sale of goods and services provided by non-core subsidiaries.

The Company identifies revenue by the following major customer groups:

Customer groups	2003	2002
Residential customers	**6,997,399**	6,371,150
Corporate customers	**3,437,010**	3,365,351
Telecommunication operators	**1,077,438**	637,161
Government customers	**869,475**	416,947
Total	**12,381,322**	10,790,609

5. Other Operating Expenses

	2003	2002
General and administrative expenses	**491,392**	346,692
Rent of premises	**106,399**	107,111
Bank services	**77,922**	68,481
Audit and consulting fees	**75,756**	122,155
Cost of goods sold	**60,994**	34,650
Advertising expenses	**58,022**	96,658
Information services	**35,331**	38,221
Other expenses	**411,123**	178,554
Total	**1,316,939**	992,522

General and administrative expenses included the following:

	2003	2002
Fire and other security services	**127,183**	61,918
Transportation services	**88,598**	65,534
Business travel expenses and representation costs	**43,362**	33,441
Education expenses	**42,354**	29,486
Payments to Gossvyaznadzor	**36,050**	48,018
Post services	**13,470**	22,170
Other expenses	**140,375**	86,125
Total	**491,392**	346,692

6. Interest Expense, Net of Interest Income

	2003	2002
Interest income	**(24,044)**	(18,199)
Interest expense	**184,253**	183,869
Interest expense accrued on financial leases	**69,793**	73,890
Interest expense accrued on vendor financing	**49,427**	48,859
Less: capitalized interest	**(12,225)**	(9,835)
Total	**267,204**	278,584

7. Income Tax

The income tax charge for the years ended December 31, 2003 and 2002 comprised the following:

	2003	2002
Current income tax expense	**460,671**	324,975
Deferred income tax benefit	**(201,038)**	10,880
Total income tax expense	**259,633**	335,855

7. Income Tax (continued)

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

	2003	2002
Profit before income tax and minority interest	**(669,411)**	(810,713)
Statutory income tax rate	**24%**	24%
Theoretical tax charge at statutory income tax rate	**160,659**	194,571
Increase (decrease) resulting from the effect of:		
Expenses not deductible for tax purposes	**166,056**	170,837
Inflationary effect on opening deferred profits tax balance	**-**	(185,475)
Permanent element of net monetary gain	**-**	115,889
Other adjustments	**(67,082)**	40,033
Total income tax charge for the year at the effective rate of 39% (2002 - 41%)	**259,633**	335,855

The composition of deferred tax assets and liabilities as of December 31, 2003 and 2002 was as follows:

	2003	2002
Deferred tax assets:		
Accounts payable	**124,348**	318,112
Accounts receivable	**33,614**	43,831
Other	**20,537**	130,532
Deferred tax asset, total	**178,499**	492,475
Deferred tax liabilities:		
Property, plant and equipment	**1,132,858**	1,386,665
Investment valuation effect	**154,858**	212,047
Other	**58,266**	262,284
Deferred income tax liability, total	**1,345,982**	1,860,996
Net deferred income tax liability	**1,167,483**	1,368,521

8. Earnings per Share

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	2003	**2002**
Net income attributable to ordinary shareholders (basic and diluted)	**322,219**	445,315
Weighted average number of ordinary shares for basic and diluted earnings per share	**733,127,722**	735,917,222
Earnings per ordinary share, Rubles (basic and diluted)	**0.44**	**0.61**

In 2003 the Company did not issue any additional ordinary shares. Further, the Company had no financial instruments to be converted into additional ordinary shares in accordance with the terms of issue. Therefore the Company did not estimate diluted earnings per share.

The Company did not engage in any other transactions involving ordinary shares or instruments exchangeable for ordinary shares in the period from the reporting date through the date of issue of the accompanying financial statements.

9. Dividends Declared and Proposed for Distribution

Dividends declared in 2003 for the year 2002:

Dividends on ordinary shares, 0.064 Rubles per share	47,121
Dividends on preferred shares, 0.14 Rubles per share	28,283
Total	75,404

Approved at the annual shareholder meeting for the year 2003 (see Note 31):

Dividends on ordinary shares, 0.083 Rubles per share	**61,0[illegible]**
Dividends on preferred shares, 0.36 Rubles per share	**72,1[illegible]**
Total	**133,2[illegible]**

Dividends paid to shareholders are determined by the Board of Directors and declared and officially approved at the annual shareholders’ meeting. Earnings available for dividends are limited to profits determined in accordance with Russian statutory accounting regulations.

10. Property, Plant and Equipment

	Buildings and constructions	Switches and transmission devices	Construction in progress and equipment for installation	Machinery and other PP&E	Tot
Cost					
At December 31, 2002	21,929,699	17,878,750	2,214,148	4,602,929	46
Additions	-	-	2,854,957	-	2
Disposals	(264,767)	(445,565)	(29,605)	(176,689)	(916
Transfers	846,025	2,175,217	(3,383,440)	362,198	
At December 31, 2003	**22,510,957**	**19,608,402**	**1,656,060**	**4,788,438**	**48**
Impairment					
At December 31, 2002	-	-	(1,054,861)	(11,231)	(
Recoveries and reversals	-	-	(3,480)	11,231	7
At December 31, 2003	**-**	**-**	**(1,058,341)**	**-**	**(1**
Accumulated depreciation					
At December 31, 2002	(13,872,739)	(12,221,047)	-	(3,248,185)	(29
Charge for the year	(547,857)	(931,103)	-	(335,992)	(
Disposals	157,577	413,761	-	89,330	660
At December 31, 2003	**(14,263,019)**	**(12,738,389)**	**-**	**(3,494,847)**	**(30**
Net book value as of December 31, 2002	**8,056,960**	**5,657,703**	**1,159,287**	**1,343,513**	**10**
Net book value as of December 31, 2003	**8,247,938**	**6,870,013**	**597,719**	**1,293,591**	**17**

The net book value of plant and equipment held under finance leases at December 31, 2003 is 903,236 thousand Rubles (2002 – 86,772 thousand Rubles). Leased assets are pledged as security for the related finance lease obligations (see Note 23).

In 2003, the Company increased construction in progress by 12,225 thousand rubles of capitalized interest (2002 - 9,835 thousand Rubles) (see Note 6).

Property, plant and equipment for the total of 252,796 thousand Rubles as of December 31, 2003 (2002 - 623,009 thousand Rubles) secured the Company’s borrowings (see Note 22).

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

In 2004 the Company engaged an independent appraiser to assist in removing existing non-compliances with the requirements of IFRS in accounting for property and equipment referred to above.

11. Intangible Assets and Goodwill

	Goodwill	Licenses	Software	Other	Total
Cost					
At December 31, 2002	27,450	1,834	234,200	3,998	267,482
Additions	-	2,011	560,320	-	562,331
Disposals	-	-	-	(38)	(38)
At December 31, 2003	**27,450**	**3,845**	**794,520**	**3,960**	**829,775**
Accumulated amortization					
At December 31, 2002	(16,470)	(216)	(137,245)	(711)	(154,642)
Charge for the year	(5,490)	(242)	(81,913)	(98)	(87,743)
At December 31, 2003	**(21,960)**	**(458)**	**(219,158)**	**(809)**	**(242,385)**
Net book value at December 31, 2002	**10,980**	**1,618**	**96,955**	**3,287**	**112,840**
Net book value at December 31, 2003	**5,490**	**3,387**	**575,362**	**3,151**	**587,390**

Intangible assets include expenses on acquisition of non-exclusive rights to ERP system based on Oracle E-Business Suite software. On June 3, 2003 the Company’s Board of Directors approved the decision of OAO “Svyazinvest” dated April 14, 2003 to implement at OAO “Svyazinvest” group companies the ERP system and approved the Oracle E-Business Suite supply agreement with ZAO “Otkrytye Tekhnologii 98”.

The total contractual amount is 467,856 thousand Rubles, or approximately 15,460 thousand US dollars. The Company intends to start amortization upon full completion of the system implementation that is expected in 2007. In the meanwhile the intangible asset will be the subject to periodical analysis for impairment.

Goodwill arising on the acquisition on November 15, 2000 of OOO “Artelecom Service” (formerly OOO “AGTS”) is amortized on a straight-line basis over the entire useful life estimated by the Company’s management at 5 years.

Licenses and software are amortized on a straight-line basis over their estimated useful lives determined equal to the term of the license or the license agreement for software. Useful lives of other intangible assets are 3-10 years.

12. Consolidated Subsidiaries

The consolidated financial statements include the assets, liabilities and financial results of the Company and its subsidiaries listed below:

Subsidiary	Main Activity	Voting Shares	
		2003	2002

OOO "Artelecom Service"	Telecommunication services	**77%**	77%
OOO "AMT"	Consulting service	**100%**	100%
ZAO "Vologodskaya Sotovaya Svyaz"	Telecommunication service	**60%**	60%

All the above companies are Russian legal entities registered in accordance with Russian legislation.

13. Investments in Associates

The Company's investments in associates at December 31, 2003 and 2002 comprised the following:

Associate	Activity	2003		2002	
		Voting shares	Carrying value	Voting shares	Carrying value
ZAO "Delta Telecom", St. Petersburg	NMT-450 mobile communication services	-	-	43%	176,636
ZAO "Vestbalt Telecom", Kaliningrad	Telecommunication services	28%	**39,728**	28%	38,053
SZAO "Medexpress", St. Petersburg	Voluntary insurance services	35%	**25,848**	35%	16,692
ZAO "Northern Clearing Chamber", Vologda	Settlement and clearing systems	20%	**15,761**	20%	12,100
OAO "Telenord", Murmansk	NMT-450 mobile communication services	25%	**1,285**	25%	2,609
ZAO "Neva-Kabel", St. Petersburg	Cable manufacturing and sales	49%	**394**	49%	394
ZAO "Kaliningrad Mobile Systems", Kaliningrad	NMT-450 mobile communication services	34%	**300**	34%	300
Others			**23**		93
Impairment of investments in associates			**(717)**		(717)
Total			**82,622**		246,160

All of the above associates are incorporated in Russia, the fiscal year end at all associates on December 31. The carrying value of investments in associates as reported in the accompanying financial statements is equivalent to the Company's share in the investees' net assets (except for investment in ZAO "Neva-Kabel", ZAO "Kaliningrad Mobile Systems" and others that are reported at restated cost).

Pursuant to the Company's Board of Directors' decision of September 2003, the Company sold its participating interest in ZAO "Delta Telecom" (220,630 ordinary shares and 304,316 preferred B-shares) to ZAO "Sky Link", the entity affiliated with OAO "Telecominvest". The carrying value of investment in ZAO "Delta Telecom" at the moment of sale was 138,193 thousand Rubles. The selling price was 132,325 thousand Rubles. A respective entry in the Shareholders' Register confirming transfer of title to the shares was made in December 2003.

Movement in investments in associates in 2003 is presented below:

Investments in associates at December 31, 2002	**246,160**
Share in income (losses) net of dividends received	(25,275)
Sale of investments in associates	(138,263)
Investments in associates at December 31, 2003	**82,622**

14. Investments

As of December 31, 2003 and 2002 the Company's investments comprised the following:

	2003	2002
Long-term investments held-to-maturity	**8,000**	8,000
Long-term investments available-for-sale	**654,283**	685,811
Total long-term investments	**662,283**	693,811
Short-term investments held-to-maturity	**4,834**	4,924
Total investments	**667,117**	698,735

As of December 31, 2003 investments held-to-maturity included a long-term deposit of 8,000 thousand Rubles.

As of December 31, 2003 and 2002 financial investment available-for-sale comprised the following:

	2003		2002	
	Ownership interest	Fair value	Ownership interest	Fair value
Long-term investments				
OAO "Telecominvest"	**15%**	**615,336**	15%	615,336
Other long-term financial investments		**89,152**		92,756
Impairment in value of other financial investments		**(50,205)**		(22,281)
Total investments available-for-sale		**654,283**		685,811

Other long-term investments comprise minor investments of the Company in equity of number of commercial entities and banking institutions incorporated in Russian Federation.

15. Advances to Suppliers of Equipment

As of December 31, 2003 and 2002 advances to suppliers of equipment comprised the following:

	2003	2002
Advances issued to equipment suppliers	**104,262**	60,298
Advances issued to contractors under capital construction agreements	**13,314**	59,389
Other advances issued	**12,433**	-
Total	**130,009**	119,687

16. Inventories

Inventories at December 31, 2003 and 2002 included the following:

	2003	2002
Cable, materials and spare parts for telecommunications equipment	**133,750**	128,767
Finished goods and goods for resale	**8,839**	8,628
Other inventories	**89,732**	91,644
Provision for obsolescence	**(2,341)**	(3,108)
Total	**229,980**	225,931

17. Trade Accounts Receivable

Trade accounts receivable at December 31, 2003 and 2002 comprised the following:

	2003	2002
Trade receivables – telecommunication services	**1,765,144**	1,600,924
Trade receivables – other	**57,413**	137,279
Allowance for doubtful accounts	**(827,123)**	(738,260)
Total	**995,434**	999,943

The Company identified trade receivables by the following major customer groups:

	2003	2002
Residential customers	**1,349,573**	1,210,215
Corporate customers	**278,714**	274,817
Government customers	**136,857**	115,892
Total	**1,765,144**	1,600,924

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

18. Other Financial Assets

As of December 31, 2003 and 2002, other financial assets included:

	2003	2002
Long-term accounts receivable	**6,219**	-
Long-term loans given	**18,723**	12,827
Other long-term financial assets	-	16,528
Total	**24,942**	29,355

As at December 31, 2003 long-term loans given are carried at amortized cost using the effective interest rate of 13-15%.

19. Other Current Assets

As of December 31, 2003 and 2002 other current assets comprised the following:

	2003	2002
Prepayments and advance payments	**58,272**	117,811
Settlements with personnel	**2,309**	4,055
Short-term loans given	**8,027**	5,564
VAT recoverable	**417,727**	383,782
Prepaid income tax	**9,355**	37,862
Other prepaid taxes	**11,802**	21,673
Other receivables	**112,796**	99,983
Total	**620,288**	670,730

20. Cash and Cash Equivalents

As of December 31, 2003 and 2002 cash and cash equivalents comprised the following:

	2003	2002
Cash at bank and on hand	**280,631**	329,454
Short-term deposits with original maturities of three months or less	**1,213**	9,722
Other cash equivalents	**594**	-
Total	**282,438**	339,176

The major portion of the Company's cash was deposited with ZAO "North-West Telecombank" (40% of total cash). ZAO "North-West Telecombank" is affiliated with OAO "Telecominvest" where 15% share is held by the Company. The Company also held cash at North-West bank of Sberbank RF (OAO) (28%), Northern Bank of Sberbank RF (OAO) (25%), OAO "Industry and Construction Bank" (4%) and AKB "Moskovsky Delovoy Mir" (OAO) (2% of total cash).

21. Share Capital

The share capital account represents the authorized capital of the Company as stated in the charter documents. The Company issued 735,917,222 ordinary shares and 202,022,788 Class A preferred shares as of December 31, 2003.

	2003		2002	
	Shares	Share capital	Shares	Share capital
Preferred shares at par value of 1 Ruble outstanding shares as of December 31 authorized shares	**202,022,788**	**202,023**	202,022,788	202,023
Ordinary shares at par value of 1 Ruble outstanding shares as of December 31 authorized shares	**735,917,222**	**735,917**	735,917,222	735,917
Treasury shares as of December 31 (repurchase price 1,5 Rubles)	**(2,789,500)**	**(8,998)**	-	-
Total share capital	**935,150,510**	**928,942**	937,940,010	937,940

All shares have a par value of 1 Ruble per share. Of the share capital issued as of December 31, 2003, 78% was attributable to ordinary shares, and 22% to Class A preferred shares. The ordinary shareholders are allowed one vote per share.

21. Share Capital (continued)

Class A preferred shares are non-voting. All ordinary shares and Class A preferred shares are eligible for distribution of Ruble earnings available in accordance with Russian statutory accounting regulations. Each Class A preferred share is entitled to a minimum annual dividend in the amount 10% of statutory net income available for the last financial year divided by the number of shares constituting 25 percent of the Company's authorized capital. Accordingly, such minimum amounts of dividends due to the holders of preferred shares are accrued as of the end of each reporting year and reflected as liabilities. Dividends on Class A preferred shares may not be less than dividends on ordinary shares. Shareholders of Class A preferred shares have a preferential right to recover the par value of preferred shares in liquidation.

In August 2001 the Company had its Level 1 American Depository Receipt (ADR) Program for ordinary shares registered with the US Securities and Exchange Commission. In September 2001 the Company concluded a Depositary Agreement with JP Morgan Chase Bank as ADR depository. In accordance with the depositary agreement each ADR is equal to 50 ordinary shares of the Company.

The Company's shareholding structure as of December 31, 2003 is as follows:

	Ordinary shares	%	**Preferred shares**	%	**Total**
OAO "Svyazinvest"	371,382,743	50.5%	-	-	371,382,743
Other legal entities	320,447,789	43.5%	112,771,793	55.8%	433,219,582
Individuals	41,297,190	5.6%	89,250,995	44.2%	130,548,185
Treasury shares	2,789,500	0.4%	-	-	2,789,500
Total	**735,917,222**	**100%**	**202,022,788**	**100%**	**937,940,010**

22. Loans and Borrowings

Long-term borrowings

As of December 31, 2003 and 2002 long-term borrowings comprised the following:

Long-term borrowings	**2003**	**2002**
Bank loans:		
Bank loans (Euro)	**460,433**	449,795
Total bank loans	**460,433**	449,795
Bonds (Rubles)	**1,010,685**	300,000
Vendor financing:		
Vendor financing (US Dollars)	**438,028**	639,997
Vendor financing (Euro)	**297,960**	308,331
Total vendor financing	**735,988**	948,328
Promissory notes (Rubles)	**1,543**	15,044
Borrowings from related parties	**31,549**	66,123
Total long-term borrowings	**2,240,198**	1,779,290
Less: current portion of long-term borrowings	**(1,212,078)**	(653,563)
Total long-term borrowings, net of current portion	**1,028,120**	1,125,727

Loans from related parties as of December 31, 2003 included accounts payable to OAO "Svyazinvest" of 28,595 thousand Rubles (2002 – 63,169 thousand Rubles) and to OAO "Lensvyaz" of 2,954 thousand Rubles (2002 – 2,954 thousand Rubles) (see Note 29).

22. Loans and Borrowings (continued)

As of December 31, 2003 long-term borrowings had the following maturity schedule:

Maturity at face values	Bank loans	Bonds	Vendor financing	Promissory notes	Borrowings from related parties	Total
2004	382,623	300,000	505,069	-	31,024	**1,218,716**
2005	65,075	-	121,561	-	2,954	**189,590**
2006	12,735	225,000	65,817	-	-	**303,552**
2007	-	525,000	34,752	-	-	**559,752**
2008 and thereafter	-	-	14,357	15,044	-	**29,401**
Total, maturity schedule	**460,433**	**1,050,000**	**741,556**	**15,044**	**33,978**	**2,301,011**
Un-amortized discounts and issue costs	**-**	**(39,315)**	**(5,568)**	**(13,501)**	**(2,429)**	**(60,813)**
Total, present value	**460,433**	**1,010,685**	**735,988**	**1,543**	**31,549**	**2,240,198**

Bank loans

Vnesheconombank

In 1995-1996, the Russian Ministry of Finance (hereinafter, "Minfin") provided long-term financing to the Company to purchase telecommunications equipment from various foreign vendors. Vnesheconombank acted as the Company's lending agent on behalf of Minfin. Initially the agreement was denominated in Deutschmark (DM). After transition to Euro, the loan was converted to Euro. The interest under this agreement is accrued at floating Plafond C rate, which in 2003 approximated 6.5%, plus 2%. The loan is not collateralized. At the beginning of 2003 the respective Company's liability was 554,634 thousand Rubles. As at the end of 2003 the amount due to Vnesheconombank totaled 675,127 thousand Rubles, including overdue payables of 417,256 thousand Rubles (of which overdue interest accounts for 118,557 thousand Rubles).

Bonds

On March 6, 2002, the Company issued 300,000 inconvertible bonds with par value of 1,000 Rubles each for the total amount of 300,000 thousand Rubles (1st bond issue). The bonds were placed at a discount of 3.5%. Interest rates varied as follows: starting from July 2002 – at 20% p.a., October 2002, at 19% p.a., April 2003, at 18% p.a., October 2003 and April 2004, at 16% p.a. On April 10, 2004 the Company fully repaid its liabilities under the bond issue.

22. Loans and Borrowings (continued)

Long-term loans (continued)

Bonds (continued)

In July 2003 the Company registered issue of 1,500,000 coupon bonds with par value of 1,000 Rubles each and effected placement on October 8, 2003 (2nd bond issue). The bonds carry 16 coupons. Payments under the first coupon are due on the 91th day since the bond placement date, and other coupon payments are effected every 91 day. The interest rate under coupons 1, 2, 3, and 4 is set at 14,2 % p.a. The interest rate under coupons 5 through 8 is 13,2% p.a. The interest rate under coupons 9 through 16 is to be determined by the Board of Directors and communicated to stakeholders by way of publication in *Vedomosti* and/or *Izvestiya* newspapers not later than 14 days before the eighth coupon period completion date. The nominal bond value is repayable in installments as follows: 30% - on the 1092th from the bond placement date, 30% on the 1274th day, and the remaining 40% matures on October 3, 2007, i.e. 1456 days from the date of placement. In addition, in accordance with the terms of issue, the Company is obliged to secure the bondholders’ right to demand that the Company repurchase the bonds during the last 14 days of the eighth coupon period (September 21, 2005 through October 5, 2005).

In late 2003, to reduce the Company’s 2nd bond issue service costs and enhance utilization of own and borrowed financial resources, management decided to repurchase half of the bond issue to sell the bonds on the secondary market as and when necessary to finance investment projects. As of December 31, 2003 the Company owned 750,000 thousand Rubles worth of 2nd issue bonds repurchased at face value.

Pursuant to IAS 39, the Company recognizes the bonds less issuance costs. Since the Company is obliged to secure the bondholders’ right to demand that the Company repurchase the bonds over the last 14 days of the eighth coupon period, the issuance costs are amortized using the effective interest method through the last day of the said period (October 5, 2005). The bond issuance costs totaled 43,342 thousand Rubles, and the un-amortized portion as of December 31, 2003 was 39,615 thousand Rubles.

Vendor Financing

Long-term vendor financing outstanding as of December 31, 2003 was as follows:

Vendor	Currency	Maturity	Contractual interest rate	Amount outstanding
Mitsui	EUR	2004	LIBOR + 3%	342,482
Siemens	EUR	2007 – 2008	7.5%; Euribor + 3%	239,197
Lucent Technologies	EUR	2006	6.6% – 9%	50,214
Elsis - Kaliningrad	USD	2005	8.42%	39,862
Iskratel	USD, EUR	2004-2006	0%, 8%	26,171
Dialog-Seti	USD	2005	0%	19,140
Kvantintercom	USD	2004, 2011	0%	8,101
Others	USD,EUR	2004-2005	0%	10,821
Total				**735,988**

The amount outstanding under interest-free loans as of December 31, 2003, represents the present value of future contractual payments. Interest under the agreements is charged based on average weighted annual interest rate inclusive of all interest-bearing loans received by the Company in the respective period and denominated in the respective currency. The interest rate computed as described above ranged from 7.5% to 8.5%.

22. Loans and Borrowings (continued)

Long-term loans (continued)

Promissory Notes

In 2000 the Company issued interest-free promissory notes maturing in 2015-2016 for 15,044 thousand Rubles. In 2001 the notes were reissued under a contract of novation. The amount outstanding as of December 31, 2003 represents the present value of payments totaling to 1,543 thousand Rubles.

Short-term borrowings

As of December 31, 2003 short-term borrowings comprised the following:

	2003	**2002**
Short-term borrowings		
Bank loans:		
Bank loans (Rubles)	**8,100**	207,901
Bank loans (Euro)	**214,694**	127,171
Total bank loans	**222,794**	335,072
Bonds (Rubles)	**35,424**	12,428
Vendor financing		
Vendor financing (Euro)	**403**	-
Total vendor financing	**403**	-
Total short-term borrowings	**258,621**	347,500

As of December 31, 2003 borrowings include interest payable of 251,391 thousand Rubles (2002 – 139,691 thousand Rubles).

Bank loans

In 2003 the Company entered in loan agreements with the following banks: AKB "Moskovsky Delovoy Mir" (OAO), AKB "Avtobank-Nikoil" (OAO), OAO "Alfa-Bank", ZAO "North West Telecombank". Interest rate on loans obtained from the banks varied in the range of 12%-17% p.a. for Ruble-denominated loans and 10% p.a. for the currency loan. Telecommunication equipment was pledged to secure the loans. The loans were obtained to finance day-to-day operation of the Company (working capital replenishment).

Bonds

The short-term liabilities as of December 31, 2003 include coupon yield accrued on long-term Company's bonds issued in 2002 and 2003.

Vendor Financing

In 2003 the Company did not enter in short-term vendor financing agreements. Liability outstanding as of December 31, 2003 comprises interest accrued under the existing long-term vendor financing agreements.

23. Finance Lease Obligations

The Company has finance lease contracts for telecommunication equipment. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments as of December 31, 2003 are as follows:

	Minimum payments	Present value of payments
Current portion	**370,954**	**235,169**
2 to 5 years	**737,814**	**494,729**
5 years and more	**629**	**-**
Total minimum lease payments	**1,109,397**	**-**
Less amounts representing finance charges	**(379,499)**	**-**
Present value of minimum lease payments	**729,898**	**729,898**

In 2003, effective interest rate on leasing liabilities ranged from 16% to 23% per annum (2002 - 24%).

In 2003 and 2002, the Company’s primary lessors were OAO “RTC-Leasing” and OAO “Leasing-Telecom” (entities affiliated with OAO “Telecominvest”).

OAO “RTC-Leasing” purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment under finance lease contracts. The Company’s obligations under capital leases to OAO “RTC-Leasing” as at December 31, 2003 comprised 642,419 thousand Rubles (2002 - 43,420 thousand Rubles) including 613,803 thousand Rubles of principal amount (2002 - 43,420 thousand Rubles) and 28,616 thousand Rubles of interest payable (2002 - nil).

OAO “Leasing Telecom” purchases vehicles from domestic and foreign suppliers and leases the equipment under finance lease contracts. The Company’s liability to OAO “Leasing Telecom” under the contracts as of December 31, 2003 were 94,602 thousand Rubles (2002 – 58,117 thousand Rubles), including 30,613 thousand Rubles (2002 – 10,963 thousand Rubles) of principal amount and 63,989 thousand Rubles (2002 – 47,154 thousand Rubles) of interest.

Pursuant to the agreements concluded with OAO “RTC-Leasing”, the lessor is entitled to adjust the lease payment schedule in the event of certain changes in the economic environment, in particular, change in the refinancing rate of the Central Bank of Russian Federation.

24. Trade Accounts Payable and Accrued Liabilities

As of December 31, 2003 and 2002 the Company’s trade accounts payable and accrued liabilities comprised:

	2003	2002
Trade accounts payable	**319,213**	311,231
Advances received from subscribers	**254,507**	351,601
Accounts payable for capital expenditures	**375,182**	317,256
Salaries and wages payable	**341,291**	164,021
Accounts payable for other services	**66,856**	43,954
Other accounts payable	**115,885**	269,479
Total	**1,472,934**	1,457,542

25. Tax and Social Security Payable

As of December 31, 2003 and 2002 the Company had the following taxes outstanding:

	2003	2002
VAT payable	**424,858**	370,866
Unified social tax	**124,866**	67,155
Property tax	**42,855**	41,343
Sales tax	**27,237**	44,079
Personal income tax	**17,998**	16,323
Income tax (overpaid)	**(6,059)**	28,277
Other	**14,325**	25,029
Total	**646,080**	593,072

26. Pension Plans and Employee Benefits

In addition to statutory pension benefits, the Company also contributes to defined benefit plans, which cover most of its employees. Non-government pension fund (“NPF”) “Telecom-Soyuz” maintains the plans. The plans provide for payment of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men. The benefits are based on a formula recognizing minimal statutory pension, length of service both in the Company and in the telecommunications industry, as well as final average earnings and position in the Company at retirement. The benefits are not vesting and are subject to the employee retiring from the Company on or after the above-mentioned ages. The Company makes contributions to the pensions funds as a set percentage of the employees' salaries or in the amount set forth in the agreement with the pension fund subject to a specific pension arrangement.

As described in Note 2, the Company has not made an actuarial determination of current debt under these agreements, and hence does not make a disclosure required under IAS 19, pertaining to the value of obligations and assets of the plan as of December 31, 2003.

In 2004 the Company engaged an independent actuary to assist in removing existing non-compliances with the requirements of IFRS in accounting for post-employment benefits referred to above.

27. Commitments and Contingencies

General contingencies

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

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

27. Commitments and Contingencies (continued)

Tax laws and regulations

Legislation and regulations regarding taxation and foreign currency transactions in Russia continue to evolve as the government manages the transformation from a command to a market-oriented economy.

During 2002, the Russian Federation enacted a new Tax Code with significant modifications from the prior law. The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities, the Central Bank and Ministry of Finance. Instances of inconsistent opinions are not unusual.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes was unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to accrue for contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. No such accruals have been made as of December 31, 2003.

Because of the uncertainties associated with the Russia tax and legal systems, the ultimate amount of taxes, penalties and interest assessed, if any, may be in excess of the amount expensed to date and accrued as of December 31, 2003.

Insurance coverage

The Russian insurance industry is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. During 2003, the Company did not maintain insurance coverage on a significant part of their property, plant and equipment asset bases, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss of destruction of certain assets could have a material adverse effect on the Company's operation and financial position.

Litigations, claims and assessments

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

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

Telecommunication Reforms

On January 1, 2004 a new law on telecommunications came into effect in Russia. The law sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. The new law may increase the regulation of the Company's operations and until such time as appropriate regulations consistent with the new law are promulgated, there will be a period of confusion and ambiguity as regulators interpret the legislation.

27. Commitments and Contingencies (continued)

Telecommunication Reforms (continued)

Under the new law, the Company is obliged to establish services under similar circumstances and equal conditions for connecting telecommunications networks and for carrying traffic from communications operators rendering similar services and to render connection services and the services involved in carrying traffic to these operators under the same terms and of the same standard, like for its own structural subdivisions and for affiliated parties.

According to the new telecommunication law, the individual subscriber has an option for local service to be paid based on subscription or by-the-minute payment system.

The new law creates a Universal Service Charge calculated as a percentage of revenue, which is planned to be introduced from 2005.

Management cannot predict with any certainty how the new law will affect the Company.

Guarantees and pledges

The Company stands as payment guarantor of third parties’ liabilities totaling to 848,879 thousand Rubles (2002 – 2,159 thousand Rubles), of which for certain OAO “RTC-Leasing” loans 846,333 thousand Rubles. The Company pledged 252,796 thousand Rubles worth of property as a security (2002 – 623,009 thousand Rubles). Company’s management does not anticipate any material liabilities to arise in connection with the security pledge.

28. Outstanding Contract Obligations

Capital investments

At December 31, 2003 the Company has commitments of approximately 1,060,343 thousand Rubles for capital investments into modernization and expansion of its network (2002 - 1,192,524 thousand Rubles).

Oracle E-Business Suite Implementation

In accordance with the 2004 budget, the Company plans to invest in the Oracle E-Business Suite-based ERP implementation 161,700 thousand Rubles during the next year.

29. Related Parties Disclosures

The Company’s consolidated financial statements included the following amounts as of December 31, 2003 and 2002:

	2003	2002
Accounts receivable from related parties:		
OAO “Telecominvest” and affiliated companies other than OAO “RTC-Leasing”	**52,623**	160,007
OAO “Lensvyaz”	**2,459**	3
ZAO “VestBalt Telecom”	**1,174**	611
SZAO “Medexpress”	**1,022**	54
ZAO “Sankt-Peterburgskiy Centr Electrosvyazy”	**658**	-
OAO “Tele-Nord”	**480**	452
ZAO “Kolatelecom”	**388**	1,064
OOO “Bona”	**324**	324
ZAO “Neva Cable”	**214**	132
OOO “Novgorod Datacom”	**155**	199
ZAO “Kaliningradskiye Mobilniye Systemy”	**50**	9
OAO “Zentralny Telegraph“	**28**	-
OAO “Uralsvyazinform”	**11**	3
OAO “Yuzhnaya Telecommunicazionnaya Companiya”	**9**	15
OAO “Rostelecom”	**8**	27
OAO “CenterTelecom”	**6**	-
OAO “VolgaTelecom”	**3**	-
Total accounts receivable from related parties	**59,612**	**162,900**
Accounts payable to related parties:		
OAO “RTC-Leasing	**642,419**	43,420
OAO “Rostelecom”	**274,636**	115,631
OAO “Telecominvest” and affiliated companies other than OAO “RTC-Leasing”	**121,357**	175,188
OAO “Lensvyaz”	**3,749**	1
SZAO “Medexpress”	**1,061**	717
OOO “Novgorod Datacom”	**281**	302
ZAO “Kolatelecom”	**180**	-
ZAO “Registrator-Svyaz”	**152**	218
ZAO “Sankt-Peterburgskiy Centr Electrosvyazy”	**39**	3
OAO “CenterTelecom”	**22**	-
ZAO “Neva Cable”	**7**	1,444
OAO “Uralsvyazinform”	**1**	15
OAO “Zentralny Telegraph“	**1**	-
Non-commercial partnership “Center for Research of Problems in Development of Telecommunications”	-	15,007
OAO “Yuzhnaya Telecommunicazionnaya Companiya”	-	2
Total accounts payable to related parties	**1,043,905**	**351,948**

29. Related Parties Disclosures (continued)

	2003	2002
Sales to related parties:		
OAO "Telecominvest" and affiliated companies other than OAO "RTC-Leasing"	**898,460**	496,796
OAO "Rostelecom"	**233,881**	21,753
OAO "Lensvyaz"	**34,640**	29,788
ZAO "VestBalt Telecom"	**6,691**	921
SZAO "Medexpress"	**5,254**	370
ZAO "Kolatelecom"	**2,913**	356
OOO "Novgorod Datacom"	**2,717**	282
OAO "Tele-Nord"	**2,518**	838
ZAO "Neva Cable"	**1,447**	1,650
OAO "CenterTelecom"	**181**	-
OOO "Policomp"	**168**	143
OAO "Zentralny Telegraph"	**147**	101
ZAO "Sankt-Peterburgskiy Centr Electrosvyazy"	**128**	-
OAO "Uralsvyazinform"	**109**	25
ZAO "Kaliningradskiye Mobilniye Systemy"	**102**	17
OAO "Yuzhnaya Telecommunicazionnaya Companiya"	**57**	-
OAO "VolgaTelecom"	**12**	83
ZAO "Registrator-Svyaz"	-	3
Total sales to related parties	**1,189,425**	**526,126**
Purchases from related parties:		
OAO "Rostelecom"	**1,838,143**	1,480,035
OAO "RTC-Leasing"	**865,619**	224,796
OAO "Telecominvest" and affiliated companies other than OAO "RTC-Leasing"	**451,810**	104,327
Non-commercial partnership "Center for Research of Problems in Development of Telecommunications"	**102,207**	110,461
OAO "Lensvyaz"	**34,480**	25,359
SZAO "Medexpress"	**28,361**	22,615
ZAO "Neva Cable"	**16,485**	18,930
ZAO "Sankt-Peterburgskiy Centr Electrosvyazy"	**8,954**	827
OAO "Gyprosviaz"	**5,906**	5,406
ZAO "Kolatelecom"	**4,683**	398
OOO "Novgorod Datacom"	**4,030**	543
ZAO "Registrator-Svyaz"	**3,009**	1,997
OAO "Tele-Nord"	**1,175**	342
OOO "Policomp"	**1,108**	1,320
OAO "VolgaTelecom"	**693**	-
OAO "CenterTelecom"	**368**	162
OOO "Zentrum"	**95**	16
ZAO "Kaliningradskiye Mobilniye Systemy"	**30**	-
OAO "Uralsvyazinform"	**27**	68
OAO "Zentralny Telegraph"	**7**	-
ZAO "VestBalt Telecom "	**1**	-
OAO "Yuzhnaya Telecommunicazionnaya Companiya"	-	82
Total purchases from related parties	**3,367,191**	**1,997,684**

29. Related Parties Disclosures (continued)

OAO "Svyazinvest"

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

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

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

As at December 31, 2003 and 2002 the Company had an outstanding amount payable to Svyazinvest under a loan agreement (see Note 22).

OAO "Rostelecom"

OAO "Rostelecom", a majority-owned subsidiary of OAO "Svyazinvest", is the primary provider of domestic long distance and international telecommunications services in the Russian Federation. The annual expense associated with traffic carried by OAO "Rostelecom" and terminated outside of the Company's network is stated as interconnection charges. OAO "Rostelecom" uses the Company's network to provide incoming long-distance and international traffic to its subscribers and partner operators.

OAO "RTC-Leasing"

OAO "RTC-Leasing" purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment. In October 2003, OAO "Rostelecom" which owned 27% of ordinary shares of OAO "RTC-Leasing" and exercised financial and operational control over the company's activities, sold all shares of OAO "RTC-Leasing" to an entity affiliated with OAO "Telecominvest". As a result of this transaction, starting from December 1, 2003 OAO "RTC-Leasing" has not formed part of OAO "Svyazinvest" group but continued to be a related party to OAO "Telecominvest" where the Company holds a 15% participating interest.

Non-commercial partnership "Center for Research of Problems in Development of Telecommunications"

Non-commercial partnership "Center for Research of the Problems in Development of Telecommunications" (hereinafter "the Non-Commercial Partnership") is an entity related to OAO "Svyazinvest". The Company has an agreement with the Non-Commercial Partnership, under which it provides financing for mutually beneficial projects undertaken by the Non-Commercial Partnership on behalf of the Company and other subsidiaries and associates of Svyazinvest. Payments to the Non-Commercial Partnership included in other operating expenses in accompanying consolidated statement of operations for the year ended December 31, 2003 amounted to 102,207 thousand Rubles (2002 – 82,657 thousand Rubles).

NPF "Telecom-Soyuz"

For 1997-2002 the Company has concluded several pension plans agreements with NPF "Telecom-Soyuz". The Company is liable to effect fixed payments in the amount agreed between the parties on an annual basis.

29. Related Parties Disclosures (continued)

NPF "Telecom-Soyuz" (continued)

Total payments effected by the Company under non-governmental retirements schemes in 2003 and 2002 were 66,107 thousand Rubles and 56,945 thousand Rubles, respectively (inclusive of all acquisitions). The contributions due for 2004 are established at 68,626 thousand Rubles.

Transactions with government organizations

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

Government subscribers accounted for approximately 49% of gross trade accounts receivable as of December, 2003 (2002 – 47%). Amount outstanding from government subscribers as of December 31, 2003, amounted to 892,449 thousand Rubles (2002 – 819,914 thousand Rubles), including 755,642 thousand Rubles of compensation of tariffs of benefit categories of population (2002 - 704,022 thousand Rubles).

Associates

The Company also provided services to other associates, including connection to public network, and rent of space for equipment and offices. The total effect of these transactions on the Company's financial position is insignificant.

Compensation of the Company's management

The Company's Board of Directors included the following persons as of December 31, 2003:

Chair of the Board of Directors:
- Yashin Valery Nikolayevich, General Director, OAO "Svyazinvest"

Board members:
- Belov Vadim Evgenievich, Deputy General Director, OAO "Svyazinvest";
- Bilibin Yury Alexandrovich, Assistant General Director, OAO "Svyazinvest";
- Gogol Alexander Alexandrovich, Rector, St. Petersburg State Telecommunications University named after M. Bonch-Bruevich;
- Ikonnikov Alexander Vyacheslavovich, Director, Investors Rights Protection Association;
- Lyebedinets Oleg Anatolievich, Analytical Director, Brunswick Asset Management;
- Levkovsky Dmitry Vladimirovich, Vice-President, NCH Advisors Inc;
- Ragozina Irina Mikhailovna, Corporate Management Director, OAO "Svyazinvest";
- Rodionov Ivan Ivanovich, Managing Director, AIG-Brunswick Capital Management;
- Soldatenkov Sergei Vladimirovich, General Director, OAO "MegaFon";
- Sysoyev Alexander Abramovich, Deputy General Director, OAO "Telecominvest".

In 2003 compensation (bonuses, benefits and privileges) to the members of the Board totaled 34,891 thousand Rubles (2002 – 13,218 thousand Rubles).

30. Financial Instruments

Fair value

The management believes that the value at which the financial instruments are carried in the accompanying consolidated balance sheet as of December 31, 2003 and 2002, approximates their fair value.

Interest rate risk

The following table presents the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk:

December 31, 2003	**< 1 year**	**1-5 years**	**> 5 years**	**Total**
Fixed rate				
Short-term borrowings	43,584			43,584
Long-term borrowings	445,306	880,688	8,836	1,334,830
Finance lease obligations	235,169	494,729		729,898
Floating rate				
Long-term borrowings	766,772	138,596		905,368
Short-term borrowings	215,037			215,037

Interest on financial instruments classified as floating rate is repriced at intervals less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

The table above is reflective of the present value of interest-free liability under supplier credits, long-term promissory notes issued and loans obtained from related parties classified as fixed rate liabilities totaling 95,375 thousand Rubles as of December 31, 2003. Interest is charged based on average weighted annual interest rate inclusive of all interest-bearing loans received by the Company in the respective period and denominated in the respective currency.

Interest risk is generally related to floating rate and fixed rate debts denominated mostly in US Dollars and Euro. As of December 31, 2003 approximately 35% of all Company's borrowings were floating rate debts.

As of December 31, 2003 outstanding Company's liabilities totaled 3,228,717 thousand Rubles of which approximately 1,120,405 thousand Rubles were floating rate ones. The floating rate payable is generally determined based on the London Interbank Offered Rate (LIBOR), European Interbank Offered Rate (EURIBOR), or the German Export Lending Rate (Plafond-C).

The Company does not use such financial instruments as interest swap or forward rate agreements to hedge its interest risks.

Currency risk

The currency risk is generally related to the Company's currency-denominated liabilities. Outstanding as of December 31, 2003 the Company's amounts payable to the supplies of 71 million Rubles were denominated in different foreign currencies. Euro and US dollars denominated vendor financing including related interests payable at the year end amounted to 298 million Rubles and 438 million Rubles, respectively. The Company's loans comprised 675 million Rubles and 32 million Rubles of Euro and US dollars denominated loans, respectively. US dollars denominated finance lease obligations outstanding as of December 31, 2003 amounted 55 million Rubles.

30. Financial Instruments (continued)

Currency risk (continued)

The Company's financial statements are presented in Russian Rubles. To the extent that the Company is vulnerable to currency fluctuations, it may incur currency exchange gains or losses.

The Company does not use such financial instruments as forward exchange contracts and currency options to hedge the risks.

31. Subsequent Events

Accession of OAO "Lensvyaz" and OAO "Svyaz" of Komi Republic

On April 15, 2004 an extraordinary shareholders' meeting of OAO "North-West Telecom" was held and decision was taken to reorganize OAO "North-West Telecom" through accession of OAO "Lensvyaz" and OAO "Svyaz" of Komi Republic.

The merger will be effected by way of converting the acquired entities' shares into the Company's shares and transferring all rights and liabilities of the acquired entities to the Company. Shareholders of the acquired entities will become the Company's shareholders, the acquired entities' shares will be paid off, and the acquired entities will cease to be separate legal entities.

The conversion rates are stipulated in the draft Merger Agreement between OAO "Lensvyaz", OAO "Svyaz" of Komi Republic and the Company and are as follows:

- 0.0268 ordinary nominal uncertificated OAO "Lensvyaz" shares are converted into one ordinary nominal uncertificated the Company's share;
- 0.0268 preferred nominal uncertificated OAO "Lensvyaz" shares are converted into one preferred nominal uncertificated the Company's share;
- 4.0 ordinary nominal uncertificated OAO "Svyaz" of Komi Republic shares are converted into one ordinary nominal uncertificated the Company's share;
- 4.0 preferred nominal uncertificated OAO "Svyaz" of Komi Republic shares are converted into one preferred nominal uncertificated the Company's share.

The conversion rates have been calculated based of the estimated value relationship between shares of the Company, OAO "Lensvyaz" and OAO "Svyaz" of Komi Republic, by comparison with comparable companies, and by analyzing discounted cash flows, net asset worth and comparable transactions.

Sale of investments

In January 2004 the Company's Board of Directors took a decision to withdraw from participation in the following NMT-450 mobile telecom operators: ZAO "Vologodskaya Sotovaya Svyaz" by selling 33,000 ordinary nominal shares; OAO "Kaliningrad Mobile Networks" by selling 26,130 ordinary nominal shares; and OAO "Tele-Nord" by selling 5,000 ordinary nominal shares. In accordance with this decision the Company has ceased participation in OAO "Kaliningrad Mobile Networks" since May 5, 2004, in ZAO "Vologodskaya Sotovaya Svyaz" since April 30, 2004 and in OAO "Tele-Nord" since June 3, 2004.

In accordance with the Subsidiary Reorganization Model approved on June 30, 2004 by the Board of Directors, the Company's participating interests in banking institutions are to be disposed. According to the subsidiary reorganization time schedule the sale of the shares in banks is scheduled in the first quarter of 2005.

31. Subsequent Events (continued)

Finance lease agreements with OAO “RTC-Leasing”

In 2004, the Company entered into several finance lease agreements with OAO “RTC-Leasing” (see Note 29). Total cost of equipment leased under these agreements, inclusive of installation and other capitalized services, approximated 68,491 thousand Rubles, with the respective non-discounted future cash flows totaling approximately 109,942 thousand Rubles.

Dividends

On June 30, 2004, the general meeting of the Company’s shareholders approved dividends for 2003 in the amount of 0.36 Rubles per preferred share and 0.083 Rubles per ordinary share. Total dividends declared amounted to 72,122 thousand Rubles and 61,081 thousand Rubles for preferred and ordinary shares, respectively. Dividends for the year ended December 31, 2003, are payable during 2004. The dividends to holders of preferred shares of 72,122 thousand Rubles and 28,283 thousand Rubles were reflected in the financial statements as of December 31, 2003 and 2002, respectively. The dividends to holders of ordinary shares for the year ended December 31, 2003 will be reflected in the financial statements for the year ended December 31, 2004 (see Notes 9 and 21).

Tariffs for telecom services

Since January 2004 tariffs for local and intercity telephony have not been changed. Tariffs for long-distance international calls services have been increased on the average by 49%.

Claims

The Company is a plaintiff in a number of proceedings against the RF Ministry of Defense, Ministry of Labor and Social Development and Ministry of Finance over losses incurred in connection with preferential tariffing schemes available to certain groups of subscribers under the Federal Laws “On Veterans” and “On Social Protection of Disabled People in the RF” totaling to some 426,000 thousand Rubles, of which claims for approx. 407,000 thousand Rubles have been satisfied in the court of first instance. The RF Ministry of Finance appealed against the first instance court ruling. The appeal hearing is scheduled for August 2004.

In 2004 the Company filed more debt actions over preferential tariff compensation for 2001-2003 totaling to 470,000 thousand Rubles.

This is not yet probable that the amounts above will be recovered by the Company.

OAO “Svyazinvest” audit by the Audit Chamber

In 2003 the RF Federal Assembly instructed the Audit Chamber to audit OAO “Svyazinvest”, a majority shareholder of the Company. As part of the assignment, apart from OAO “Svyazinvest” the Audit Chamber also audited the Company itself. As of the issue date of these financial statements management has not been notified about conclusions made by the Audit Chamber and action steps that might be required from the Company based on the results of the audit. The potential impact of the contingency, if any, is impossible to determine at present.

31. Subsequent Events (continued)

Value added tax (VAT) rate reduction

Since January 1, 2004 the VAT rate was reduced from 20% to 18%.

VAT on borrowed funds

Constitutional Court Resolution

In 2004, Resolution No. 169-O of the Constitutional Court of the Russian Federation dated April 8, 2004 has become publicly available. The Resolution has the possible effect of deferring the timing in which companies are able to offset input VAT to the extent the creation of such VAT is deemed to be attributable to the utilization of borrowed funds. Practical interpretation by taxing authorities of this Resolution may result in a material adverse impact on the Company's financial condition and further change the classification of the amount of input VAT currently reported as current assets. As of the date of this report, management is unable to predict the outcome of this uncertainty.