OAO "Uralsvyazinform"

Consolidated Financial Statements as of December 31, 2001

with Independent Auditors' Report

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Contents

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of OAO "Uralsvyazinform"

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

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

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

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

ЗAO Ernst + Young Vneshaudit

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

Open Joint Stock Company "Uralsvyazinform"

Consolidated Balance Sheets

(In thousands of Rubles in terms of purchasing power of the Ruble at December 31, 2001)

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

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

Open Joint Stock Company "Uralsvyazinform"

Consolidated Statements of Income

(In thousands of Rubles in terms of purchasing power of the Ruble at December 31, 2001 except earnings per share data)

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

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

Open Joint Stock Company "Uralsvyazinform"

Consolidated Statements of Cash Flows

(In thousands of Rubles in terms of purchasing power of the Ruble at December 31, 2001)

	for the years ended December 31,	
	2001	**2000**
Cash flows from operating activities		
Income before taxation	**590,388**	349,667
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**302,584**	243,599
Net loss on disposal of property, plant and equipment	**16,730**	22,831
Net loss on investments valuaton	**67**	4,091
Impairment and other valuation reserves of assets	**(13,367)**	-
Interest expense (net)	**163,770**	275,144
Decrease in allowance for doubtful accounts	**8,863**	-
(Increase) decrease in trade accounts receivable	**(18,247)**	47,385
(Increase) decrease in inventories	**(70,205)**	(25,715)
(Increase) decrease in advances and other accounts receivable	**(268,127)**	(17,550)
(Decrease) increase in accounts payable	**229,630**	(28,075)
Decrease in taxes and social security payable	**4,330**	-
Exchange rate losses	**10,627**	-
Monetary gain	**(320,669)**	(289,271)
Interest paid	**(172,696)**	(323,004)
Income tax paid	**(45,171)**	(40,361)
Cash provided by operating activities	**418,507**	218,741
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(703,638)**	(342,015)
Acquisition of intangible assets	**(19)**	(3,985)
Purchase of investments	**(5,665)**	(13)
Interest received	**8,960**	15,218
Cash used in investing activities	**(700,362)**	(330,795)
Cash flows from financing activities		
Proceeds from borrowings	**2,047,072**	1,531,877
Repayment of borrowings	**(1,709,245)**	(1,585,832)
Repayment of finance lease obligation	**(1,870)**	-
Dividends paid	**(10,389)**	(11,482)
Cash provided (used) by financing activities	**325,568**	(65,437)
Monetary effects on cash and cash equivalents	**(10,524)**	(10,283)
Effects of exchange rate changes on cash and cash equivalents	**(10,910)**	-
Cash and cash equivalents at beginning of period	**68,284**	256,058
Increase (decrease) in cash and cash equivalents	**22,279**	(187,774)
Cash and cash equivalents at end of period	**90,563**	68,284

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

Open Joint Stock Company "Uralsvyazinform"

Consolidated Statements of Changes in Shareholders' Equity

(In thousands of Rubles in terms of purchasing power
in terms of purchasing power of the Ruble at December 31, 2001)

	Share Capital	**Retained Earnings and Other Reserves**	**Total Equity**
At December 31, 1999	1,049,273	322,815	1,372,088
Net income for the year	-	775,130	775,130
Dividends for 1999	-	(11,209)	(11,209)
Dividends for 2000	-	(10,390)	(10,390)
At December 31, 2000	1,049,273	1,076,346	2,125,619
Net income for the year	-	308,147	308,147
At December 31, 2001	**1,049,273**	**1,384,493**	**2,433,766**

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

OAO “Uralsvyazinform”

Notes to Consolidated Financial Statements
as of December 31, 2001

(In thousands of rubles in terms of purchasing power of the ruble at December 31,2001)

1. Group Business and Russian Environment

Operations of the Group

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

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

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

Formation of the Company and its Subsidiaries

On December 22, 1992, the Government of the Russian Federation issued Resolution # 1003 “On Privatization of Communications Enterprises" which launched the privatization of the telecommunications industry of the Russian Federation. According to the State Privatization Plan state-owned enterprises were replaced by the newly incorporated joint stock companies.

The Company was registered in the Russian Federation on April 29, 1994 by the administration of the Lenin district of Perm city in accordance with the Presidential Decree # 721 of July 1, 1992 “On Measures to Reorganize State Enterprises and Groups of State Enterprises into Joint Stock Companies” that approved the privatization plan and assets valuation for the Company. The Company's net assets were evaluated for privatization purposes as of July 1, 1992 in accordance with the Regulation on Accounting and Financial Reporting in the Russian Federation. The Company's financial statements as of the date of privatization were based on the opening balances stated in the financial statements prepared in accordance with Russian accounting principles. In 1995, in accordance with the respective Presidential Decree, all state-owned common shares of the Company were transferred to OAO “Svayzinvest”.

1. Group Business and Russian Environment (continued)

Formation of the Company and its subsidiaries (continued)

As of December 31, 2001 the Group includes subsidiaries Closed Joint Stock Bank of Innovations “Pochtobank” (“the Bank”) and Limited Liability Company “Perminform” (“Perminform”) that were acquired during the process of registration and are consolidated. The Bank provides banking services to legal entities and individuals on the territory of Russian Federation. The Bank was registered on April 30, 1992 and started its activity from July 6, 1992. As of December 31, 2001 the Group owns 68% of voting shares (50.02% held directly by the Company and 18% held by Perminform). Perminform provides Internet access for legal entities and individuals on the territory of Perm region of the Russian Federation. Perminform was registered on the August 6, 1992 by Motovilikha district soviet of people’s deputies. As of December 31, 2001, the Company owned 100% of Perminform.

Economic and Political Environment

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

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

2. The Group’s Market Position, Liquidity and Financial Resources

Tariff Setting Procedures

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

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

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

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

Company Reorganization

In 2001 the Company's management started the Company’s reorganization by obtaining shareholder approval to merge the following regional enterprises of OAO “Svyazinvest” Group:

- OAO “Electrosvyaz” of Kurgan region,
- OAO “Svyazinform” of Chelyabinsk region,
- OAO “Uraltelecom” of Sverdlovsky region,
- OAO “Yamalelectrosvyaz”,
- OAO “Tyumentelecom”,
- OAO “Khantymansiyskokrtelecom”

2. The Group’s Market Position, Liquidity and Financial Resources (continued)

Company Reorganization (continued)

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

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

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

Availability of Financial Resources

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

Although the Group plans to attract financing from additional sources, the management cannot be assured that financing will be available in the future, and if so, at commercially acceptable rates and under terms that coincide with the long-term nature of the investments to be made. In August 2002 the Group placed long-term bonds with the face value equal to 1 bln. rubles with 3 years maturity (refer to the Note 26) for the purposes of capital investments financing. Financing was raised at commercially acceptable rates. Also, in the future the Group may have to attract additional financing in foreign currencies. Foreign currency-denominated liabilities bear inherent risks (due to the fluctuations of exchange rates), and the Group does not have hedging instruments to manage and mitigate such risks.

2. The Group's Market Position, Liquidity and Financial Resources (continued)

Availability of Financial Resources (continued)

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

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

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

Quantitative and Qualitative Disclosures about Market Risk

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

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

Interest rate sensitivity

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

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

2. The Group's Market Position, Liquidity and Financial Resources (continued)

Quantitative and Qualitative Disclosures about Market Risk (continued)

Interest rate sensitivity (continued)

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

Exchange rate sensitivity

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

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

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

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

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

2. The Group's Market Position, Liquidity and Financial Resources (continued)

Taxation in the Russian Federation

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

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

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

3. Summary of Significant Accounting Policies

Basis of Presentation of Consolidated Financial Statements

The Group maintains its accounting records and prepares its statutory accounting reports in Russian Rubles and in accordance with the Regulations on Accounting and Reporting in the Russian Federation. The accompanying financial statements presented in accordance with International Financial Reporting Standards (IFRS) are based upon the statutory accounting records which are maintained in accordance with the Russian accounting regulations under the historical cost convention. These statutory accounting reports have been adjusted to present the accompanying financial statements in accordance with International Financial Reporting Standards.

3. Summary of Significant Accounting Policies (continued)

Basis of Presentation of Consolidated Financial Statements (continued)

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

Principles of Consolidation

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

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

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

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

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

OAO "Uralsvyazinform" has investments in the following subsidiaries

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

3. Summary of Significant Accounting Policies (continued)

Principles of Consolidation (continued)

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

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

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

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

Associated Companies

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

Other Investments

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

3. Summary of Significant Accounting Policies (continued)

Accounting for the Effects of Inflation

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

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

The indices used to adjust amounts in these consolidated financial statements with respect to 2001 prices (2001 = 1.0) for the years ended December 31, and the respective conversion factors, are:

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

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

- all amounts including comparative amounts as of December 31, 2000 are stated in terms of the measuring unit current at December 31, 2001;

- monetary assets and liabilities at December 31, 2001 are not restated as they are already expressed in terms of the monetary unit current at December 31, 2001;

3. Summary of Significant Accounting Policies (continued)

Accounting for the Effects of Inflation (continued)

- non-monetary assets and liabilities which are not carried at amounts current at December 31, and shareholders' equity are restated by applying the relevant conversion factors;

- indexation adjustments to property, plant and equipment applicable to prior periods are credited to "Retained earnings and other reserves" in the accompanying balance sheets;

- all items in the consolidated statements of income and of cash flows are adjusted by applying appropriate conversion factors with the exception of depreciation, amortization and losses from disposal of fixed assets and other assets;

- the effect of inflation on the Group's net monetary position is included in the consolidated statement of income as a gain or loss on net monetary position.

Comparative Amounts

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

Property, Plant and Equipment

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

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

3. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

The adjusted historical values of property, plant and equipment are depreciated on the straight-line basis over the estimated economic useful lives of each class of assets as follows:

Buildings and constructions	50 years
Analogue switches	20 years
Digital switches	15 years
Cable and transmission devices:	
Duct	15 years
Radio and fixed link transmission equipment	15 years
Vehicles	5 years
Computers, office and other equipment	3-10 years

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

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

Property, Plant and Equipment Contributions

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

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

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

3. Summary of Significant Accounting Policies (continued)

Investment Properties

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

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

Finance Leases

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

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

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

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

Operating Leases

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

3. Summary of Significant Accounting Policies (continued)

Intangible Assets

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

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

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

Software

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

Inventories

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

Receivables

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

Mutual Offset and Barter

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

3. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

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

Revenues

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

Value Added Taxes

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

Foreign Currency

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

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

3. Summary of Significant Accounting Policies (continued)

Borrowing Costs

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

Other interest expenses and borrowing costs are recognized as expenses in the period in which they are incurred.

Pension Costs

State Pension Scheme

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

Earnings per Share

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

Social Commitments

Social infrastructure maintenance

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

3. Summary of Significant Accounting Policies (continued)

Social Commitments (continued)

Other employee benefits

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

Financial Instruments

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

The Group does not use hedging.

Income Tax

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

Deferred Income Tax

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

3. Summary of Significant Accounting Policies (continued)

Deferred Income Tax (continued)

IAS 12 (Revised 2000) requires the use of a balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The Group’s principal temporary differences arise in respect of property, plant and equipment. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

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

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

4. Property, Plant and Equipment

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

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

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

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

4. Property, Plant and Equipment (continued)

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

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

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

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

5. Leased Assets

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

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

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

5. Leased Assets (continued)

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

	2001	2000
Operating equipment	**10,686**	–
Accumulated depreciation	**(1,188)**	–
Leased assets, net	**9,498**	–

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

6. Intangible Assets

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

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

7. Long-Term Investments

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

		Ownership		Carrying value	
	Activities	**2001**	**2000**	**2001**	**2000**
Subsidiary companies					
OOO “Perminform”	Telecommunication	**100%**	100%	**–**	5,127
OOO “Perm-Telecom”	Telecommunication	**100%**	100%	**1,132**	1,132
Associated companies					
“Parma-Pension”	Non-state pension fund	**28%**	28%	**677**	677
“Dinamo”	Football club	**35%**	35%	**132**	132
Center “Leader”	Consulting services	**27%**	27%	**132**	132
Other investments					
ZAO “RusleasingSvyaz”	Leasing	**7%**	7%	**618**	618
ASO “Ural-AIL”	Insurance	**8%**	8%	**270**	270
Center for Problems of Telecommunication Development Study	Non-commercial partnership	**–**	–	**1,070**	–
Other				**598**	696
Total long-term investments, net				**4,629**	8,784

Prior to 2001 OOO “Perminform” was accounted for on the cost basis rather then consolidated . Commencing January 1, 2001, the accounts of OOO “Perminform” are included in the consolidated accounts of the Group.

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

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

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

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

8. Inventories

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

	2001	2000
Cable	**17,003**	[illegible]156
Spare parts and materials	**80,662**	84,434
Goods for resale	**93,253**	54,020
Total inventories, net	**190,918**	150,610

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

9. Trade Accounts Receivable

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

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

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

10. Other Current Assets

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

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

11. Cash And Cash Equivalents

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

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

12. Shareholders' Equity

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

	Number of Shares Authorized and Issued		Share Capital	
	2001	2000	2001	2000
Common shares	**8,743,938,000**	8,743,938,000	**1,049,273**	912,097
Issued and paid-up				
At January 1	–	–	–	–
Increase in nominal value of shares	–	–	–	137,176
At December 31	**8,743,938,000**	8,743,938,000	**1,049,273**	1,049,273

12. Shareholder's Equity (continued)

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

Common shares	
0.0012 rubles per share	10,390
	10,390

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

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

13. Short and Long-Term Debt

Short-Term Borrowings

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

Short-term loans:	**2001**	**2000**
Bank loans		
Sberbank	**661,811**	516,669
Alfa-Bank	**82,555**	72,882
Other	**163,786**	139,874
Total bank loans	**908,152**	729,425
Loans from Regional Authorities		
Town administration of Gubakha	**1,000**	1,188
Total loans from regional authorities	**1,000**	1,188
Total short-term loans	**909,152**	730,613

13. Short and Long-Term Debt (continued)

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

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

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

Long-Term Loans

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

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

13. Short and Long-Term Debt (continued)

Long-Term Loans (continued)

Long-term borrowings are summarized by currency as follows:

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

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

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

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

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

13. Short and Long-Term Debt (continued)

Long-Term Loans (continued)

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

a) Long-term bank loans:

2002	**102,952**
2003	**21,352**
2004	**74,265**
2005	**61,703**
2006	**39,210**
2007 and thereafter	**65,188**
Total	**364,670**

b) Long term vendor financing:

2002	**62,442**
2003	**67,260**
2004	**66,088**
2005	**56,809**
2006	**–**
2007 and thereafter	**110,141**
Total	**362,740**

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

14. Equipment Contributions

	2001	**2000**
Carrying value at January 1	**166**	178
Assets received free of charge	**–**	–
Amortization	**(12)**	(12)
Carrying value at December 31	**154**	166

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

15. Accounts Payable and Accrued Expenses

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

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

16. Taxes and Social Payables

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

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

17. Revenues

Revenues for 2001 and 2000 comprised:

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

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

18. Interest Income, Expense and Similar Items

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

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

19. Income Tax

Income tax expense in 2001 and 2000 comprised:

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

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

19. Income Tax (continued)

Theoretical and actual income tax charges are reconciled as follows:

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

Deferred income taxes

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

19. Income Tax (continued)

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

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

20. Non-State Pension Costs

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

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

21. Fair Value of Financial Instruments

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

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

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

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

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

22. Commitments and Contingencies

Capital Investment Commitments

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

Licenses

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

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

Land

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

Taxation

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

Insurance

The Russian insurance industry is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation. The Group has significant but not full insurance coverage for its network equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents with the Group’s property or relating to the Group’s operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial condition.

22. Commitments and Contingencies (continued)

Claims

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

Industry regulations

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

23. Related Parties

OAO Svyazinvest

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

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

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

OAO “Rostelecom”

OAO “Rostelecom”, subsidiary of OAO “Svyazinvest”, provides long distance and international services in the Russian Federation. The Group has agreements with OAO Rostelecom for domestic and international long distance traffic. The respective costs of RUR 76,827 (2000: RUR 85,138) are included in Interconnection charges in the accompanying income statement. As of December 31, 2001, the Group has an outstanding payables due to OAO Rostelecom of RUR 21,399 (2000: RUR 9,813) reflected as Current liabilities in the accompanying balance sheet.

23. Related Parties (continued)

Transactions with State-Financed Organizations

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

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

Group’s Investees

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

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

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

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

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

23. Related Parties (continued)

Directors' Remuneration

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

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

No loans have been granted to Directors.

24. Segment Reporting

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

24. Segment Reporting

	Wireline communications services		Wireless communications services		Other operations		Eliminations		Consolidated	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**	**2001**	**2000**
REVENUE										
External sales	**1,556,880**	1,615,574	**705,724**	424,9	**137,3**	10,646	**–**	–	**2,3**	2,051,
Inter-segment sales	**–**	–	**–**	–	**31,9**	16,574	**(31,9**	(16,5	**–**	–
Total revenue	**1,556,880**	1,615,574	**705,724**	424,9	**169,3**	27,220	**(31,9**	(16,5	**2,3**	2,051,
RESULT										
Segment result	**248,419**	238,418	**532,476**	263,3	**9,7**	(10,390)	**–**	–	**790,6**	491,36
Unallocated corporate expenses									**(313,4**	(155,82
Operating profit									**477,2**	335,54
Interest expense and similar items									**(163,7**	(290,45
Gain/loss on financial investments									**721**	–
Other income/ /(expenses) (net)									**(44,4**	15,31
Monetary gain/loss									**320,6**	289,26
Income tax expense (benefit)									**(268,7**	431,40
Minority interest in subsidiaries									**(13,5**	(5,93
Net income									**308,1**	775,13
OTHER INFORMATION										
Segment assets	**3,437,142**	2,912,663	**354,139**	290,4	**139,3**	145,638			**3,9**	3,348,
Unallocated corporate assets									**1,1**	1,075,
Consolidated total assets									**5,1**	4,424,
Segment liabilities	**63,453**	63,535	**14,550**	3,2	**–**	–			**78,0**	66,76
Unallocated corporate liabilities									**2,5**	2,232,
Consolidated total liabilities									**2,6**	2,298,
Capital expenditure	**475,980**	284,647	**309,355**	144,4	**190,2**	11,302				
Depreciation	**247,056**	165,899	**20,082**	15,5	**35,4**	62,115				

25. Subsequent Events

Dividends

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

Service tariffs

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

Introduction of EURO

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

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

26. Issue of Bonds

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

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