OAO ROSTELECOM

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

FOR THE YEAR ENDED DECEMBER 31, 2000

INDEX

STATEMENT OF DIRECTORS' RESPONSIBILITIES

To the Shareholders of OAO Rostelecom

1. International convention requires that management prepare consolidated financial statements which present fairly, in all material respects, the state of affairs of the Group at the end of each financial period and of the results and cash flows for each period. Management are responsible for ensuring that all Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Accounting Standards and that their statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management consider that, in preparing the consolidated financial statements set out on pages 5 to 38, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Accounting Standards have been followed.

3. The consolidated financial statements for the year ended December 31, 1999 and 1998, presented as corresponding figures in these financial statements, have been restated as described in Notes 16 and 19, and are described as "restated" throughout.

4. The consolidated financial statements, which are based on the statutory accounting reports adjusted to comply with International Accounting Standards, are hereby approved on behalf of the Board of Directors.

   For and on behalf of the Board of Directors:

S.I.Kuznetsov
Acting General Director

Kuznetsov

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of OAO Rostelecom

We have audited the accompanying consolidated balance sheets of OAO Rostelecom and its subsidiary and associated undertakings ("the Group") as of December 31, 2000 and 1999, and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

The consolidated financial statements for the year ended December 31, 1999 and 1998, presented as corresponding figures in these financial statements, have been restated as described in Notes 16 and 19 and are accordingly described as "restated" throughout.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with International Accounting Standards.

PricewaterhouseCoopers

Moscow, Russia

18 May 2001

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

	Notes	2000	1999 (restated)
ASSETS			
Property, plant and equipment	6	49,166	51,424
Investments in associated undertakings	8	2,214	1,668
Lease receivables		1,006	324
Non-current assets		**52,386**	**53,416**
Inventory		538	290
Accounts receivable	9	7,082	8,824
Marketable securities	10	315	299
Cash and cash equivalents	11	1,152	2,035
Current assets		**9,087**	**11,448**
Total assets		**61,473**	**64,864**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital	12	73	73
Reserves		32,396	34,498
Treasury shares		-	(1)
Total shareholders' equity		**32,469**	**34,570**
Minority interest	13	**1,118**	**249**
Accounts payable and accrued expenses	14	5,097	5,036
Taxation payable		1,237	817
Current portion of interest bearing loans	15	5,864	8,067
Current liabilities		**12,198**	**13,920**
Interest bearing loans	15	4,519	6,889
Deferred tax liability	16	11,169	9,236
Non-current liabilities		**15,688**	**16,125**
Total liabilities		**27,886**	**30,045**
Total shareholders' equity, minority interest and liabilities		**61,473**	**64,864**
Commitments and contingencies	24 and 25	**-**	**-**

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

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

	Notes	2000	1999 (restated)	1998 (restated)
Revenue				
Local operators		8,960	8,369	11,684
Subscribers		7,572	8,244	8,879
Foreign operators		7,209	10,104	9,095
Other		1,177	849	232
Total Revenue	17	**24,918**	**27,566**	**29,890**
Operating expenses				
Wages, salaries, other benefits and payroll taxes		(3,078)	(2,439)	(3,362)
Depreciation		(5,578)	(4,834)	(5,125)
Impairment charge		-	-	(6,772)
Charges by network operators - international		(6,686)	(8,599)	(7,300)
Charges by network operators - national		(1,662)	(1,753)	(2,640)
Administration and other costs		(3,574)	(2,940)	(3,560)
Taxes other than on income		(1,056)	(515)	(1,264)
Repairs and maintenance		(480)	(755)	(1,024)
Bad debt expense		(264)	(344)	(524)
Loss on sale of property, plant and equipment		(92)	(825)	(554)
Total operating expenses		**(22,470)**	**(23,004)**	**(32,125)**
Share in income of associated undertakings	8	**464**	**280**	**138**
Operating profit / (loss)		2,912	4,842	(2,097)
Net interest and other non operating items	19	(1,883)	(722)	(1,057)
Foreign exchange gain/(loss), net		459	(3,310)	(14,533)
Monetary gain / (loss)		1,303	3,011	2,783
Income/(loss) before tax and minority interest		**2,791**	**3,821**	**(14,904)**
Current tax charge		(1,629)	(1,015)	(1,045)
Deferred tax (charge)/benefit	16	(1,933)	1,115	(4,935)
Share in income taxes of associated undertakings	20	(157)	(358)	(203)
Income tax (expense)/benefit	20	**(3,719)**	**(258)**	**(6,183)**
(Loss)/income after taxation		**(928)**	**3,563**	**(21,087)**
Minority interest in income after taxation	13	(869)	(249)	-
Net (loss)/ income transferred to reserves		**(1,797)**	**3,314**	**(21,087)**
		Roubles	**Roubles**	**Roubles**
(Loss)/earnings per share – basic and diluted	22	**(2.81)**	**4.25**	**(29.25)**

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

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

	Notes	2000	1999 (Restated)	1998 (Restated)
Cash flows from operating activities				
Net income before taxation and minority interests		2,791	3,821	(14,904)
Adjustments to reconcile income to cash generated from operations:				
Impairment charge	6	-	-	6,772
Depreciation	6	5,576	4,834	5,125
Share of income in associated undertakings	8	(464)	(280)	(138)
Loss on disposal of property, plant and equipment		92	825	554
Net interest and other non-operating items		1,883	722	1,057
Foreign exchange (loss)/gain		(463)	3,310	14,533
Monetary gain		(1,303)	(3,011)	(2,783)
Changes in net working capital:				
Decrease/(increase) in accounts receivable		997	(2,522)	(2,315)
(Increase)/decrease in inventories		(248)	(14)	221
Increase in payables and accruals		250	1,594	1,684
Cash generated from operations		**9,111**	**9,279**	**9,806**
Interest paid		(2,298)	(2,336)	(1,044)
Interest received		115	398	138
Income tax paid		(1,091)	(339)	(2,022)
Net cash from operating activities		**5,837**	**7,002**	**6,878**
Cash flows from investing activities				
Purchase of property, plant and equipment		(2,552)	(3,791)	(5,027)
Purchase of marketable securities		(1,067)	(1,044)	(1,064)
Proceeds from sale of marketable securities		1,118	1,178	1,061
Increase in lease receivable		(760)	(234)	(198)
Purchase of investments		(239)	(192)	(19)
Net cash used in investing activities		**(3,500)**	**(4,083)**	**(5,247)**
Cash flows from financing activities				
Drawdown of interest bearing loans		2,813	3,628	1,336
Repayment of interest bearing loans		(5,604)	(6,723)	(2,929)
Dividends paid		(321)	(13)	(610)
Purchase of treasury stock		-	(1)	(20)
Proceeds from sale of treasury stock		-	-	35
Net cash used in financing activities		**(3,112)**	**(3,109)**	**(2,188)**
Effect of exchange rate changes on cash and cash equivalents		**7**	**(35)**	**595**
Net (decrease)/increase in cash and cash equivalents		**(768)**	**(225)**	**38**
Monetary effects on cash		**(115)**	**(240)**	**(813)**
Cash and cash equivalents at beginning of period		**2,035**	**2,500**	**3,275**
Cash and cash equivalents at end of period		**1,152**	**2,035**	**2,500**

Non-monetary transactions

Non-cash additions to property, plant and equipment	1,303	916	1,639

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

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

	Note	Share capital	Treasury shares	Retained earnings	Total
Balance as at January 1, 1998		73	(18)	50,316	50,371
Uniting of interests - MMT	1			1,958	1,958
Purchase of treasury shares	12	-	(20)	-	(20)
Disposal of treasury shares	12	-	37	(2)	35
Net loss for the year - restated (Note 16)		-	-	(21,087)	(21,087)
Balance at December 31, 1998		**73**	**(1)**	**31,185**	**31,257**
Purchase of treasury shares	12	-	(1)	-	(1)
Disposal of treasury shares	12	-	1	(1)	-
Net income for the year - restated (Notes 16 and 20)		-	-	3,314	3,314
Balance at December 31, 1999		**73**	**(1)**	**34,498**	**34,570**
Cancellation of treasury shares	12	-	1	(1)	-
Dividends		-	-	(304)	(304)
Net loss for the year				(1,797)	(1,797)
Balance at December 31, 2000		**73**	**-**	**32,396**	**32,469**

The balance of retained earnings at December 31, 1999 and 1998 have been restated from the amounts previously reported to appropriately reflect the inclusion of MMT, the deferred tax liability relating to leasing agreements, and to record commissions and other expenses directly associated with the acquisition of the Group's external debt. Retained earnings as previously reported and as restated are as follows:

	1999	1998
Retained earnings at beginning of year -		
As previously reported	32,205	50,316
Uniting of interests: MMT (Note 1)	1,357	1,958
Adjustment relating to income taxes (Note 16)	(2,377)	-
As restated	31,185	52,274
Net income/(loss)		
As previously reported	2,324	(18,108)
Uniting of interests – MMT (Note 1)	338	(601)
Adjustment relating to income taxes (Note 16)	823	(2,378)
Adjustment relating to debt (net of income taxes of 62) (Note 20)	(171)	-
As restated	3,314	(21,087)
Disposal of treasury shares	(1)	(2)
	34,498	31,185

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

1. REPORTING ENTITY

These consolidated financial statements are presented by OAO Rostelecom ("Rostelecom" or "the Company"), and include its subsidiary and associates (together "the Group"), which are incorporated in the Russian Federation ("Russia"). The principal activity of the Group is the provision of intercity and international telecommunications services to the Government, businesses and people of Russia. The Group operates the main intercity network and the international telecommunications gateways of the Russian Federation, carrying traffic that originates on other national and international operators' networks to other national and international operators for completion.

These consolidated financial statements incorporate the results of the Company and its subsidiary and associated undertakings, as detailed in Note 7.

Rostelecom was established as an open joint stock company on September 23, 1993 in accordance with the Directive of the State Committee on the Management of State Property of Russia number 1507-r, dated August 27, 1993. As of December 31, 2000 the Government of the Russian Federation controlled indirectly 50.67% of the voting share capital of the Company, by virtue of its 75% less one share direct holding in OAO Svyazinvest ("Svyazinvest"), the parent company of Rostelecom (see also Note 12).

In June 1999, the shareholders of Rostelecom and OAO Moscow International and Intercity Telecommunications ("MMT"), at their respective annual general meetings of shareholders, approved in principle the merger of MMT and Rostelecom. On July 16, 1999 the issue of 28,420,179 ordinary shares and 9,473,534 preferred shares in Rostelecom was approved for distribution to MMT shareholders for their shares in MMT. On January 1, 2000 the operations of the two companies were merged into one entity, however the final approval and registration of shares was completed as at October 11, 2000.

The "uniting of interests" method of accounting has been applied to the merger with MMT as Rostelecom and MMT were under the common control of Svyazinvest which held 50.67% of the voting shares in each of the companies. Under the uniting of interests method the financial statement items of the combined 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. Since the shares of the minority shareholders in MMT were effectively purchased, purchase accounting was applied to the minority interest portion. No goodwill was created in relation to the shares purchased from minority shareholders.

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

1. REPORTING ENTITY (CONTINUED)

The results of the operations previously reported by the separate enterprises and the combined amounts presented in the accompanying financial statements are presented below:

	Year ended December 31, 1999 (restated)	Year ended December 31, 1998 (restated)
Revenues:		
Rostelecom	27,566	29,890
MMT	1,044	2,407
Adjustments (1)	(1,044)	(2,407)
Combined revenues	**27,566**	**29,890**
Net earnings:		
Rostelecom – included restated amounts for the years ended 1999 and 1998	2,976	(20,486)
MMT	338	(601)
Combined net profit transferred to reserves	**3,314**	**(21,087)**

	December 31, 1999 (restated)
Assets:	
Rostelecom	62,317
MMT	2,672
Adjustments (1)	(125)
Total assets	**64,864**
Liabilities:	
Rostelecom	29,193
MMT	977
Adjustments (1)	(125)
Total liabilities	**30,045**
Combined net assets	**34,819**

(1) These amounts reflect adjustments to apply the uniting of interest method of accounting for business combinations.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with and comply with International Accounting Standards ("IAS"), promulgated by the International Accounting Standards Committee

The consolidated financial statements have been prepared using the historical cost convention, restated for the effects of inflation and modified by the initial valuation of property, plant and equipment as further disclosed in Notes 4 and 5 to these financial statements. The functional currency of the Group and the reporting currency for these financial statements is the Russian Rouble.

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

3. OPERATING ENVIRONMENT OF THE COMPANY

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of:

- a currency that is not freely convertible outside of the country;
- extensive currency controls;
- a low level of liquidity in the public and private debt and equity markets; and
- high inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

4. ACCOUNTING FOR THE EFFECTS OF INFLATION

IAS 29 "Financial Reporting in Hyperinflationary Economies", requires that financial statements prepared on a historic cost basis be adjusted to take account of the effects of inflation, for entities reporting in hyperinflationary economies. These consolidated financial statements have been restated in terms of the measuring unit current at the latest presented balance sheet date and the net gains or losses arising on the net monetary position of assets and liabilities expressed in Roubles during the periods presented have been included in the statement of operations and disclosed separately.

4. ACCOUNTING FOR THE EFFECTS OF INFLATION (CONTINUED)

During the years ending December 31, 2000, 1999 and 1998, the general price index issued by Goskomstat, the official Russian Government Statistical Bureau, indicates that the domestic rate of inflation has been 20.13%, 36.6% and 84.5% respectively. The Group has utilized the general price index issued by Goskomstat in the application of IAS 29.

The application of IAS 29 to specific categories of transactions and balances within the consolidated financial statements is set out as follows:

a) Corresponding figures

Corresponding figures for the previous reporting periods have been restated by applying to the amounts included in the previous years' financial statements the change in the general price index. Comparative financial information is therefore presented in terms of the measuring unit current as of December 31, 2000, being the latest date for which financial statements are presented.

b) Monetary assets and liabilities

Cash and cash equivalents, marketable securities, receivables, payables, interest bearing loans, current taxation and dividends have not been restated as they are monetary assets and liabilities and are stated in Roubles current at the balance sheet date.

Gains or losses on the net monetary position of assets and liabilities expressed in Roubles which arise as a result of inflation, are computed by applying the change in the general price index to the monetary assets and monetary liabilities, during the period.

c) Non monetary assets and liabilities

Non monetary assets and liabilities are restated from their historic cost or valuation by applying the change in the general price index from the date of recognition to the balance sheet date.

d) Consolidated statement of operations

Items included in the consolidated statement of operations are restated by applying the change in the general price index from the dates when the items were initially recorded to the balance sheet date. The depreciation expense for the year is based on the restated property, plant and equipment balances at each year end.

5. PRINCIPAL ACCOUNTING POLICIES

Set out below are the principal accounting policies used to prepare these consolidated financial statements:

a) Principles of consolidation

The Group comprises the Company, its principal trading subsidiary and associated undertakings. Transactions balances, and unrealised gains between the Company and its subsidiary are eliminated, and accounting policies of the subsidiary are adjusted to conform to those of the Group. A subsidiary is an entity that is controlled by the Company, either through ownership, directly or indirectly, of more than 50 percent of the voting share capital of the entity, or other means.

Associated undertakings in which the Group has a significant but not a controlling interest are accounted for using the equity method of accounting. Significant interest is usually demonstrated by the Group owning, directly or indirectly, between 20 percent and 50 percent of the voting share capital or by exerting significant influence through other means. The Group's share of net the income or losses of associates is included in the consolidated statement of operations, and the Group's share of the net assets of associates is included in the consolidated balance sheet. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group’s interest in the associated undertakings and unrealised losses and also eliminated unless the transaction provides evidence of impairment of the asset transferred.

b) Property, plant and equipment

For the purpose of determining the opening balance sheet on the first application of IAS at 1 January 1994, the Company performed a valuation of the property, plant and equipment as reliable historical cost information was not available. A brief description of the methodology applied in performing this valuation is set out below for each major asset category:

- Buildings and site services - current replacement cost;
- Cable and transmission devices - current replacement cost;
- Telephone exchanges - modern equivalent asset;
- Assets in course of construction - indexed historic cost.

Cost or valuation of the network comprises all expenditure up to and including the cabling and wiring to the local telephone operator's intercity exchange, and includes contractors' charges and payments on account, materials, direct labor, and interest costs on specific project financing up to the date of commissioning of the relevant assets.

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

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

5. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Depreciation is calculated on property, plant and equipment on a straight line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Years
Buildings and site services	10 - 50
Cable and transmission devices:	
▪ Duct	10 - 40
▪ Cable	30 - 40
▪ Radio and fixed link transmission equipment	15
▪ Telephone exchanges	15
Other	5 - 10

At each balance sheet date an assessment is made as to whether there is any indication that the Group's assets may be impaired. If any such indication exists, an assessment is made to establish whether the recoverable amount of the assets has declined below the carrying amount of those assets as disclosed in the financial statements. When such a decline has occurred, the carrying amount of the assets is reduced to the recoverable amount. The amount of any such reduction is recognized immediately as an expense in the statement of operations. Any subsequent increase in the recoverable amount of the assets would be written back when the circumstances that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

The recoverable amount is determined as the higher of the assets' net selling price and value in use. The value in use of the assets is estimated based on forecast future cash inflows and outflows to be derived from continuing use of the assets and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate.

c) Inventory

Inventory, primarily reserves of fuel and spare parts for the network, is stated at the lower of cost incurred in bringing each item to its present location and net realizable value, after provision for excess, damaged and obsolete items. Cost is calculated on a first in first out basis. Items used in the construction of new plant and equipment are capitalized as part of the related asset. Inventory used in the maintenance of equipment is charged to operating costs as utilized.

d) Accounts receivable

Receivables are stated in the balance sheet at their expected realizable value, after allowance for doubtful accounts. Bad debts are written off in the period in which they are identified.

5. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

e) Marketable securities

Marketable securities are stated at market value determined on an individual investment basis. Unrealized gains and losses are included in the determination of net income. Income from marketable securities is included in net interest and other non-operating items in the consolidated statement of operations. Interest income from marketable securities is accrued during the period in which it is earned.

f) Components of cash and cash equivalents

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

g) Deferred taxation

Deferred taxation is provided using the balance sheet liability method based upon the concept of temporary differences, being differences between the carrying amounts of assets and liabilities in the balance sheet and their tax basis values. Under this method deferred taxes are required to be recognized for all temporary differences with certain specific exceptions. Temporary timing differences primarily arise on the recognition of property, plant and equipment, receivables and payables in different accounting periods to those permitted under the Russian accounting regulations. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset will be realized or the liability settled, based on laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized when it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

h) Revenue and operating costs recognition

Revenue and operating costs for all services supplied and received are recognized at the time the services are rendered.

The Group charges regional telephone operators and other service providers in Russia either an agreed proportion of the amounts they collect from subscribers or an agreed accounting rate based on traffic minutes. For telephone traffic originating in Moscow, individual are charged directly for material and natural calls.

The Group charges amounts to foreign network operators for calls and other traffic that originate outside Russia.

The Group is charged by foreign operators for completing international calls.

These revenues and costs are shown gross in these financial statements, and exclude value added tax.

Amounts payable to and receivable from the same operators are shown net in the balance sheet where a legal right of offset exists.

5. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

i) Employee benefits

The Company makes certain payments to employees on retirement, or who otherwise leave the employment of the Company. These obligations, which are unfunded, are substantially similar to those typically existing under a defined benefit pension scheme. For such plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of operations so as to spread the regular cost over the service lives of employees. Actuarial gains and losses are recognized in the statement of operations immediately.

Where such other long-term employee benefits fall due more than 12 months after the balance sheet date, they are discounted using a discount rate determined by reference to market yields on Government bonds at the balance sheet date.

The Company also participates in a defined contribution pension scheme for the benefit of its employees. In accordance with the scheme rules, the Company has committed to contribute up to a maximum of 2% of salary for each employee choosing to participate in the scheme. Contributions made by the Company are charged to expense when incurred. The Group contributed 133 (1999: 72) to this scheme curing the year.

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

j) Advertising costs

Advertising costs are charged to the statement of operations as incurred.

k) Borrowing costs

Borrowing costs are charged to the statement of operations as incurred unless relating to loans which fund capital projects, in which case they are capitalized with the relevant asset up to the date of commissioning and charged to the statement of operations over the period in which the asset is depreciated.

l) Foreign currency

Transactions denominated in foreign currencies are translated into Roubles at the exchange rate as of the transaction date. Foreign currency monetary assets and liabilities are translated into Roubles at the exchange rate as of the balance sheet date.

Exchange differences arising on the settlement of monetary items, or on reporting the Group's monetary items at rates different from those at which they were initially recorded in the period, or reported in previous financial statements, are recorded as foreign currency translation gains or losses in the period in which they arise. Foreign currency translation gains and losses are included within net interest and other non-operating items in the consolidated statement of operations.

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

5. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

As at December, 31 2000 the principal rates of exchange used for translating foreign currency balances were:

	2000	**1999**
US Dollars	28.16	27.00
Deutsche marks	13.37	13.92
Japanese yen	0.2455	0.26041
SDR	36.67	37.05

Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Rouble is not a convertible currency outside the territory of Russia.

m) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, marketable securities, accounts payable and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The Company and the Group are not party to financial instruments that reduce exposure to fluctuations in foreign currency exchange and interest rates.

n) Dividends

Dividends are recognized as a liability in the year in which they are declared by the Company in general meeting.

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings and Site services	Cable and trans-mission devices	Other	Assets in course of construction	Total
Cost or Valuation					
At January 1, 2000	19,067	93,005	15,198	2,538	129,808
Additions	27	28	78	3,722	3,855
Disposals	(318)	(1,606)	(380)	-	(2,304)
Transfers	662	2,436	1,683	(4,781)	-
At December 31, 2000	19,438	93,863	16,579	1,479	131,359
Accumulated Depreciation					
At January 1, 2000	12,473	58,918	6,993	-	78,384
Depreciation expense	266	3,832	1,478	-	5,576
Disposals	(263)	(1,189)	(315)	-	(1,767)
At December 31, 2000	12,476	61,561	8,156	-	82,193
Net book value at December 31, 2000	6,962	32,302	8,423	1,479	49,166

(continued)

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings and Site services	Cable and transmission devices	Other	Assets in course of construction	Total
Cost or Valuation					
At January 1, 1999	18,344	87,131	12,441	9,477	127,393
Additions	319	87	105	4,196	4,707
Disposals	(370)	(1,460)	(462)	-	(2,292)
Transfers	774	7,247	3,114	(11,135)	-
At December 31, 1999	19,067	93,005	15,198	2,538	129,808
Accumulated Depreciation					
At January 1, 1999	12,218	56,206	6,248	-	74,672
Depreciation expense	358	3,423	1,053	-	4,834
Disposals	(103)	(711)	(308)	-	(1,122)
At December 31, 1999	12,473	58,918	6,993	-	78,384
Net book value at December 31, 1999	6,594	34,087	8,205	2,538	51,424

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in the carrying value of cable and transmission devices is the cost of prepaying a 12 year lease commencing in 1999 of satellite channels amounting to 1,422.

Included in cable and transmission devices are amounts representing Rostelecom's contribution to purchase assets, represented primarily by submarine cable, whose ownership is shared with other contributing third parties. At December 31, 2000 such items had a carrying value of 1,997 (1999 - 2,059).

Borrowing costs of 230, (1999 – 131) arising on finance specifically obtained for purchase of property, plant and equipment, were capitalized during the year and are included in additions.

Impairment

IAS 36 requires an impairment loss to be recognized immediately in the statement of operations whenever the carrying amount of an asset exceeds its recoverable amount.

During the year ended December 31, 2000 there have been no changes in the circumstances that led the Company to recognize a provision for impairment of the carrying value of the property, plant and equipment in 1998. The Company has reassessed the recoverable amount as required by IAS 36, and has concluded that no additional impairment charge is required to be recognized, and no write-back of the previously recognized impairment charge is justified.

The carrying value of the property plant and equipment in these financial statements is the estimated recoverable amount of the underlying assets based on their value in use.

7. SUBSIDIARIES

The Company had one material subsidiary as at December 31, 2000, ZAO RTC Leasing (“RTC leasing”), a company registered in the Russian Federation, in which the Company holds directly or indirectly a 27.27% interest. Due to the financial position of RTC leasing at the time, the dilution of the Company’s interest in the subsidiary resulted in no direct gain or loss to the Group. The principal activity of RTC Leasing is the leasing of capital equipment to telecommunications companies in Russia.

The principal counterparty as lessee to finance leases entered into by RTC Leasing is Rostelecom.

Despite the reduction in direct and indirect holding in RTC Leasing during 1999, in the opinion of the directors of both Rostelecom and RTC Leasing, the Company continues to exercise control of the management, policies, and day to day operations of RTC Leasing and has the ability to control the composition of its board of directors via Rostelecom Garantia, a pension fund, which now owns 63% of the share capital of RTC Leasing, the Board of which is controlled by the management of Rostelecom. Thus the Company continues to consolidate the results and financial position of RTC Leasing. In accordance with Federal law and the Charter, the pension fund is a not-for-profit organization, which means that, inter alia, the fund’s revenues are used to ensure payment of pension obligations to the participants, principally employees of the Group.

Rostelecom Garantia is unable, by law, to pass dividends back to its founders so the Group records a minority interest on consolidation which reflects the net shareholders funds of RTC Leasing attributable to the 63% share capital held by Rostelecom Garantia and the 10% of other shareholders.

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

8. INVESTMENTS IN ASSOCIATED UNDERTAKINGS

Movements in investment in associated undertakings in the years ended December 31, were as follows:

	2000	**1999**
Beginning of year	1,668	1,581
Additions in year, net of dividends received	239	165
Share of result before tax	464	280
Share of tax (Note 20)	(157)	(358)
End of year	**2,214**	**1,668**

Investments as of December 31 were as follows:

		Voting share capital %	**2000 Carrying amount**	**1999 Carrying amount**
EDN Sovintel	Telecommunications services	50	876	635
Westelcom	Telecommunications services	50	495	513
Telmos	International telecommunications	20	143	135
Moscow Cellular Communications (“MCC”)	Mobile telecommunications	23.5	366	204
Other	Various	Various	334	181
Total investment in associated undertakings			**2,214**	**1,668**

EDN Sovintel and Westelcom are treated as associated undertakings because, while capable of exercising significant influence, the Company does not have the right to govern the financial and operating policies or the economic activities of these companies.

The carrying amount of investments in associated undertakings in these financial statements is equal to the Group’s share of underlying equity in the net assets of investee companies, which are all incorporated in Russia and have a December 31 balance sheet date.

Subsequent to December 31, 2000, the Group increased its interest in Telmos to 60% of the voting share capital (see note 28).

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

9. ACCOUNTS RECEIVABLE

Accounts receivable within one year consisted of the following as of December 31:

	2000	1999
Trade accounts receivable, gross	6,248	8,378
Less: allowance for doubtful accounts	(1,609)	(2,033)
	4,639	6,345
Prepayments	575	632
Taxation recoverable	-	1,020
Other accounts receivable	1,868	827
	7,082	**8,824**

Trade accounts receivable, net of allowances for doubtful accounts, include amounts totaling 2,051 due from foreign telecommunications operators which are denominated in foreign currencies, principally represented by Special Drawing Rights (“SDR”) and United States dollars, (1999 – 3,060) and amounts totaling 2,651 due from local telephone operators, (1999 – 3,285). As at December 31, 2000 the carrying value of trade accounts receivable is equal to fair value.

10. MARKETABLE SECURITIES

Marketable securities comprised the following as of December 31, at fair market value:

	2000	1999
Major Security Type		
Bills of exchange	128	115
VEB Bonds (US$ denominated)	187	184
	315	**299**

The Group has classified its investments in marketable securities as available for sale. VneshEconomBank (VEB) bonds are bearer securities which carry the guarantee of the Ministry of Finance of the Russian Federation, and are commonly referred to as “MinFin bonds”. The bonds carry an annual coupon interest rate of 3%. VEB bonds are stated at market value based on quotations obtained from the over the counter market.

Maturities of marketable securities held as of December 31, 2000 were as follows:

	Fair value
Less than one year	
Between 1 and 5 years	248
Between 5 and 10 years	67
	315

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

11. CASH AND CASH EQUIVALENTS

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

	2000	1999
Cash in hand	1	1
Cash at bank – Roubles	453	853
Cash at bank - foreign currencies	656	1.157
Short term deposits – Roubles	42	-
Foreign currencies	-	24
	1,152	**2,035**

Cash and cash equivalents are deposited with institutions considered by the Group to have minimal risk of default.

Cash at bank in foreign currencies includes amounts of 286, (1999 – 160), held in trust accounts on behalf of providers of loan finance to the Company.

12. SHAREHOLDERS' EQUITY

Share capital

The authorized share capital of the Company is 1,634,026,541 ordinary shares of Rbl 0.0025 each and 242,836,981 preferred shares of Rbl 0.0025 each. The Board of Directors of Rostelecom is authorized under its Charter to issue additional ordinary shares up to the total of the authorized share capital without further shareholder approval.

As at December 31, 2000 the issued and outstanding share capital were as follows:

	Number of Shares	Nominal Value	Indexed Value
Ordinary Shares of Rbl 0.0025 each			
On January 1, 2000	700,312,800	1.750	55
Issued during the year	28,420,179	0.071	-
Cancelled during the year	(36,659)	-	-
On December 31, 2000	**728,696,320**	**1.821**	**55**
Preferred Shares of Rbl 0.0025 each			
On January 1, 2000	233,437,600	0.584	18
Issued during the year	9,473,169	0.024	-
Cancelled during the year	(79,300)	-	-
On December 31, 2000	**242,831,469**	**0.608**	**18**
Total			
On January 1, 2000	**933,750,400**	**2.334**	**73**
On December 31, 2000	**971,527,789**	**2.429**	**73**

The share capital of the Company on its incorporation has been indexed, to account for the effects of inflation from that date. The share capital in the Russian statutory accounts at December 31, 2000 amounted to 2,429,819 Roubles (1999: 2,334,375).

Ordinary shares carry voting rights with no guarantee of dividends.

12. SHAREHOLDERS' EQUITY (CONTINUED)

Distributions

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

Preferred shares carry guaranteed dividends amounting to the higher of 10% of the net income after taxation of the Company as disclosed in the Russian statutory accounts prepared under Russian accounting regulations and the dividends paid on ordinary shares. Owners of preferred shares have the right to participate in and vote on all issues within the competence of general meetings following the annual general meeting at which a decision to not pay, or to part pay only, dividends on the preferred shares has been taken.

In June 1999, at its Annual General Meeting, the shareholders of Rostelecom voted no dividends for either the ordinary or preferred shareholders. Consequently, the preferred shareholders of Rostelecom were entitled to participate in general meetings of shareholders with full voting rights. This right of the preferred shareholders to participate in general meeting with voting rights terminated when due dividend on respect of the year ended December 31, 1999 was declared and paid.

Treasury Shares

In accordance with the Company's charter, Rostelecom is permitted to repurchase, on the open market, ordinary and preferred shares so long as 90% of the nominal value of its issued Charter Capital remains in circulation. Repurchased shares must either be sold or eliminated within one year of being purchased.

During the year ended December 31, 1999, the Company purchased 36,659 ordinary shares at a cost of 1.32 and sold 7,600 ordinary shares for a consideration of 0.08.

As at December 31, 1999, the Company held 36,659, of its own ordinary shares and 79,300 of its preference shares. Following a resolution at the AGM these shares were cancelled and the share capital reduced. There were no other transactions in treasury shares in the year ended December 31, 2000.

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

12. SHAREHOLDERS' EQUITY (CONTINUED)

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

	1999	**1998**
Proposed dividend – preferred shares	189	-
Proposed dividend – ordinary shares	115	-
	304	**-**

	Rbl	**Rbl**
Proposed dividend per preferred share	0.81	-
Proposed dividend per ordinary share	0.16	-

These financial statements do not reflect the dividend payable in respect of 2000, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending December 31, 2001. The amount of this dividend will proposed at the annual general meeting.

The statutory accounting 2000 reports of the Company are the basis of profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year statutory net profit. For 2000, the statutory profit after taxation for the Company as reported in the published annual statutory reporting forms was 1,022. However, this legislation and other statutory law and regulations dealing with the distribution rights are open to legal interpretation and accordingly Management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

13. MINORITY INTEREST

	2000	**1999**
At beginning of year	249	-
Share of net profit (loss) of subsidiary	869	249
At end of year	**1,118**	**249**

At January 1, 1999 the minority share of the loss incurred by RTC Leasing would have been 178 if the full share of the loss attributable to the minority had been charged to minority interest. The Company recognized as a charge to minority interest only that portion required to reduce the minority interest to nil. In 1999 the Company recognized as a profit attributable to minority interest only that portion necessary to arrive at the amount attributable to the minority after recovery of the previous year loss.

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of December 31:

	2000	**1999 (restated)**
Trade accounts payable	3,690	2,483
Accrued expenses	1,158	1,388
Other taxation and social security	-	987
Compensation related accruals	247	160
Dividends payable	2	18
	5,097	**5,036**

Trade accounts payable include amounts totaling 1,280 which are denominated in foreign currencies, principally represented by Special Drawing Rights ("SDR") and United States dollars (1999 –2,149).

15. INTEREST BEARING LOANS

During late 1998 and subsequently, certain of the Group's interest bearing loans were re-negotiated such that the scheduled repayment periods were prolonged. The maturities of the interest bearing loans and the terms of individual agreements disclosed herein below, as at December 31, 1999 and 2000, are based on the terms of the revised agreements with lenders.

The interest bearing loans as of December 31, were as follows:

	2000	**1999**
Maturity		
Current portion of interest bearing loans	5,864	8,067
Between one to two years	2,538	3,483
Between two to three years	989	1,631
Between three to four years	473	662
Between four to five years	225	533
Greater than five years	294	580
Non-current portion of interest bearing loans	4,519	6,889
Total interest bearing loans	**10,383**	**14,956**

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

15. INTEREST BEARING LOANS (CONTINUED)

Interest bearing loans, which are denominated principally in foreign currency, can be summarized as of December 31, as follows:

	Note	2000	1999
US Dollars (US$)	(a)	2,587	5,127
Deutsche Marks (DM)	(b)	1,381	2,263
Japanese Yen (JPY)	(c)	3,470	4,561
Foreign currency denominated loans		7,438	11,951
Russian Roubles	(d)	2,945	3,005
Total interest bearing loans		**10,383**	**14,956**

Where applicable, in accordance with the terms of the lending agreements summarized below, the schedule of repayments has been estimated based upon the current levels of traffic and the contractual terms of the loans.

a) This includes the following amounts:

Rostelecom

- US$ 20.5 million, (577), on a credit agreement entered into in May, 1994. It is secured on future revenues of specified international traffic and is repayable in 14 semi-annual installments of US$ 4.3 million, (121), commencing in June 1996 with the final payment due not later than December 2002. Interest is payable at the London Inter Bank Offered Rate ("LIBOR") plus 3%.

- US$ 4.5 million, (128), on a credit agreement entered into in July, 1995. It is secured on the related equipment and on future revenues of specified international traffic which must be deposited in a designated account, and is repayable in 20 equal quarterly installments of US$ 0.8 million, (22), commencing not later than March 1997 with the final payment due not later than June 2002. Interest is payable at LIBOR plus 3%.

- US$ 33 million, (928), on a credit agreement entered into in May, 1997. The loan, which is unsecured, is repayable in quarterly installments over 5 years starting from the completion of the related network construction project in 1999. Interest is payable at LIBOR plus 3.2%.

- US$ 25 million, (708), on a credit agreement dated January, 1997. The loan, which is unsecured, is repayable in 20 equal quarterly installments over 5 years commencing in August, 2000 and carries interest at LIBOR plus 6%.

15. INTEREST BEARING LOANS (CONTINUED)

Subsidiary:

- US$ 1.3 million, (36), on a credit agreement entered into in October, 1997. It is repayable in 12 equal quarterly installments commencing July 1, 1998. Interest is payable at LIBOR plus 3.5%. The loan is secured by the guarantee of Rostelecom.
- US$ 4.8 million, (137), on a credit agreement entered into in June, 1999. It is repayable in quarterly installments commencing January 1, 2000 with the final payment due in July, 2002. Interest is payable at LIBOR plus 6%. The loan is secured by the guarantee of Rostelecom.
- US$ 2.6 million, (73), on a credit agreement entered into in March, 2000. It is repayable in quarterly installments commencing June, 2000. Interest is payable at LIBOR plus 6.0%. The loan is secured by the guarantee of Rostelecom.

b) This includes the following amounts:

Rostelecom:

- DM 86.2 million, (1,153), on a credit agreement dated September, 1993. It is secured on the future revenues of certain international traffic and is repayable in quarterly installments of not less than DM 4 million (53), depending on the level of traffic, commencing in January, 1994. Interest is payable at 8%.
- DM 17.5 million, (228), on a credit agreement dated March, 1996 guaranteed by the Government and secured on all the assets of the Company. Repayments will be made in semi-annual installments of DM 2.5 million, (33), commencing in December, 1996 with a final payment due not later than August, 2004. The interest rate varies according to prevailing German interbank rates.

c) This amount represents borrowings by Rostelecom of 14,135 million Japanese yen under a letter of credit issued by the Russian Government. Annual repayments commenced in 1997 with a final payment due in December, 2001. The credit arrangement was entered into in October, 1993 and outstanding amounts bear interest at 6%.

d) This includes the following amounts:

Rostelecom:

- 695 on a credit agreement entered into in April, 1999. It is repayable in quarterly installments commencing March 20, 2000 with the final payment due in April, 2002. Interest is payable at 22%.

Subsidiary:

- 2,250 on various credit agreements entered into during 1999. It is repayable in quarterly installments commencing March 20, 2000 with the final payment due in January, 2003. Interest is payable at 22%. The loan is secured on property plant and equipment to a total of 774.

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

15. INTEREST BEARING LOANS (CONTINUED)

The majority of the loan arrangements described above have been entered into with various equipment vendors, usually for the purpose of specific equipment purchases. A number are secured over future revenues, and require the periodic deposit into an escrow account of sufficient foreign currency to satisfy the repayment conditions. On completion of repayment of the principal, in respect of certain loans, the Company is obligated to pay a fixed share of revenue arising from the related telecommunication facilities. The cost of these obligations is included in interest expense in the statement of operations and in the year ended December 31, 2000 amounted to 397, (1999-394). The obligations expire in 2010.

At December 31, 2000 and 1999, the weighted average interest rate of loans was 11.9% and 9.4% respectively. In the opinion of management, rates available to the Group for debt with similar terms and maturities were not materially different at December 31, 2000. Consequently, carrying values approximate to fair values as at December 31, 2000.

The Group does not utilize financial instruments to hedge against its exposure to fluctuations in interest and foreign exchange rates.

The Company has overdue principal amounting to 2,258 owed to Vnesheconombank as agent for the the Russian Government. The Company is currently negotiating an off-set of these amounts against amounts due to Rostelecom from the Government or its affiliates. In accordance with the terms of the loan agreement, penalty interest of 241 is accrued on the amount overdue. The Group is not in default as result of these negotiations.

16. DEFERRED TAXES

The components of net deferred tax assets and liabilities at December 31, and the movement during the year, were as follows

	January 1, 2000 (restated)	Movement in year	December 31, 2000
Tax effects of future tax deductible items (temporary differences):			
Accounts payable	722	755	1,477
Tax loss carry forwards	420	(420)	-
Other	136	(136)	-
Gross deferred tax asset	**1,278**	**199**	**1,477**
Tax effects of future tax liability items (temporary differences):			
Property, plant and equipment (net)	6,012	2,169	8,181
Accounts receivable	2,103	(1,510)	593
Investment valuation difference	362	(207)	155
Leasing arrangements	1,554	2,010	3,564
Other	483	(330)	153
Gross deferred tax liability	**10,514**	**2,132**	**12,646**
Net deferred tax liability	**9,236**	**1,933**	**11,169**

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

16. DEFERRED TAXES (CONTINUED)

Differences between IAS and statutory taxation and reporting regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 35%, the rate ruling in the 2001 tax year.

Deferred tax assets and liabilities are offset when the income taxes relate to the same fiscal authority.

Deferred income tax assets are recognized for tax loss carry forwards only to the extent that realization of the related tax benefit is probable. At December 31, 1999 the Group had tax issue of 1,893, of which 1,402 were recognised as deferred tax asets.

Restatement of reported deferred tax liability and tax charge

The 1999 and 1998 consolidated financial statements were restated to appropriately reflect the deferred tax liability relating to leasing agreements. The deferred tax liability has been increased by 1,294 as of December 31, 1999 (December 31, 1998: 1,979) and net result after tax and minority interests for 1999 has been increased by 823 (1998: decreased by 2,377). Furthermore, the deferred tax liability was decreased in 1999 by 74 as a result of an accrual for costs in relation to the acquisition of the Group's external debt (See Note 20). These adjustments had no impact on cash flows.

17. REVENUE

Revenue comprised the following for the years ending December 31:

	2000	1999	1998
Revenue from local operators			
Telephone – international	2,987	2,791	1,737
Telephone – national	3,416	3,466	6,790
Other income from local operators	2,557	2,112	3,157
	8,960	**8,369**	**11,684**
Revenue from subscribers			
Telephone – international	4,619	5,441	3,197
Telephone – national	2,953	2,803	5,682
	7,572	**8,244**	**8,879**
Revenue from foreign operators			
Telephone	5,942	8,359	7,962
Telex telegraph and other	607	836	663
Leased lines	660	909	470
	7,209	**10,104**	**9,095**
Other revenue	**1,177**	**849**	**232**
Total Revenue	**24,918**	**27,566**	**29,890**

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

17. REVENUE (CONTINUED)

Since the fourth quarter of 1998, traffic to the Commonwealth of Independent States (CIS) has been included in Telephone international in both Revenue from Local Operators and Revenue from Subscribers. Previously such traffic was included in national traffic, within these headings. 1998 has not been reanalyzed to reflect this treatment.

18. SEGMENT INFORMATION

Rostelecom operates in one industry segment being the provision of intercity and international telecommunications services in the Russian Federation. The Group is organized on the basis of branches that mirror administrative regions within Russia. The Group evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Group as a whole. Reliable information on assets or profit and loss by product type is not available to the Group's management for evaluation or resource allocation decisions, and is therefore not presented. The performance measurement systems employed by the Group to review overall profitability are based on the results of the Group determined using Russian Statutory Accounting books and records. Russian Statutory Accounting differs in many significant respects from IAS and US GAAP.

An analysis of revenue by service type is disclosed at note 17. A geographical analysis of revenue by the country or region the originating counterparty operator for the years ending December 31 was:

	Russia	**CIS**	**US**	**Western Europe**	**Eastern Europe**	**Other**	**Total**
2000	17,709	2,390	584	1,632	717	1,886	24,918
1999	17,462	3,893	889	2,245	951	2,126	27,566
1998	20,793	2,950	883	2,714	918	1,632	29,890

The Group had no individual customers, other than the Government of the Russian Federation and its affiliates, (see Note 23), that accounted for greater than 10% of its revenue during the years ended December 31, 1998, 1999 and 2000.

Substantially all of the Group assets are located within the territory of the Russian Federation.

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

19. NET INTEREST AND OTHER NON-OPERATING ITEMS

Net interest and other non-operating items consisted of the following for the years ending December 31**:**

	2000	**1999 (restated)**	**1998 (restated)**
Interest expense	(2,295)	(2,335)	(1,043)
Interest capitalized	230	131	79
Interest income	115	398	138
Results of restructuring the Group's external obligations	-	981	-
Unrealized gain/(loss) on marketable securities	67	103	(231)
	(1,883)	**(722)**	**(1,057)**

Restatement of reported gain on restructuring of the Group's external obligations

As a result of operations on the financial market, the Group's obligations under a credit agreement decreased by 981 during 1999. This was accomplished by extinguishing 2,157 of this debt at a cost to the Group of 1,176 including commission of 246.

The 1999 consolidated financial statements have been restated to record commissions and other expenses directly associated with the acquisition of the Group's external debt, which were remitted to third parties in 2000. The net gain from restructuring of the Group's external obligations decreased by 246 and deferred tax charge decreased by 74. Current liabilities as of December 31, 1999 have been increased by 246 and deferred tax liability decreased by 74.

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

20. INCOME TAX EXPENSE

The components of income tax expense for the years ending December 31, were as follows:

	2000	1999 (restated)	1998 (restated)
Current income taxes	1,629	1,015	1,045
Deferred taxes (Note 16)	1,933	(1,115)	4,935
Share of tax of associates (Note 8)	157	358	203
	3,719	**258**	**6,183**

The difference between income tax expense, computed at Russian statutory rates (30% for 2000, 30% for 1999 and 35% for 1998) and income tax expense provided on earnings were as follows for the years ending December 31:

	2000	1999 (restated)	1998 (restated)
Income tax, expense/(credit) at statutory rate	837	1,146	(5,216)
Non temporary elements of monetary loss	2,215	3,031	8,449
Effect of change in tax rate as deferred tax balance	1,596	(1,454)	-
Tax losses utilised in the year not previously recognized as deferred tax assets	(148)	(483)	-
Capital allowances	-	(24)	-
Impairment of social assets	-	-	1,112
Other non-deductible expenses	767	613	1,971
Unrecognized current year tax losses	-	159	2,312
Inflation effect on deferred tax balance at beginning of year	(1,548)	(2,730)	(2,445)
Income tax expense	**3,719**	**258**	**6,183**

Other non-deductible expenses comprise various costs that are non-deductible for Russian profits tax purposes, including certain interest related to the acquisition of fixed assets, certain employee costs, promotional expenditures, travel expenditures in excess of certain statutory allowances, losses on operations in certain bills of exchange, and non-deductible taxes.

21. EMPLOYEES

The average numbers of employees during the year was 36,595 (1999-37,038). The Group has agreed with the Central Committee of the Telecommunications Trade Union of Russia to make payments to employees with fifteen or more years service, on retirement, amounting to no less than 2 months' salary as at the date of retirement. Further, the Company, at its discretion, makes payments to employees with less than 15 years service, on retirement, or who otherwise leave the employment of the Group. These obligations, which are unfunded, are substantially similar to those typically existing under a defined benefit pension scheme. An accrual of 129, representing the net present value of the future benefits the Group expects to pay, has been included in account payable.

22. EARNINGS PER SHARE

The calculation of basic and diluted earnings per ordinary share is based on net income/(loss) after tax and preferred dividends of (1,986) , (1999 – 2,916, 1998 – (20,486)) and on 706,584,862 being the weighted average number of ordinary shares in issue during the year, (1998 – 700,278,110 and 1997 – 700,229,133).

23. RELATED PARTY TRANSACTIONS

(a) The Government and OAO Svyazinvest as shareholder

As indicated in Note 1, Reporting Entity, the immediate parent company of the Group is Svyazinvest which holds 50.67% of the voting capital of the Company, and its representatives comprise a majority of the Board of Directors. The Government of the Russian Federation in turn holds 75% of the voting capital of Svyazinvest and therefore is the ultimate owner of the Group. It is a matter of Government policy to retain a controlling stake in sectors of the economy, such as telecommunications, that it views as strategic.

In the past, a number of Government statements have indicated that it is considering restructuring the telecommunications sector controlled by Svyazinvest. No action has so far been taken.

(b) Interest of the Government in the telecommunications sector in the Russian Federation and the protection of that interest

Effective telecommunications and data transmission are of great importance to Russia for various reasons including economic, social, strategic and national security considerations. The Government therefore has exercised and may be expected to exercise signficant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the Ministry of Communications and Information and the Anti Monopoly Committee, has the general authority to regulate domestic tariffs, and does regulate tariffs to a limited extent. The Ministry of Communications has control over the licensing of providers of telecommunications services.

Certain of the Group's loans have been guaranteed by the Government (see Note 15).

The Government may by law require the Group to provide services to the Government in connection with national security and the detection of crime.

Several members of the Company's Board of Directors hold positions in Federal bodies.

(c) Transactions with the Svyazinvest Group

The Svyazinvest Group uses the Group's network to carry traffic between its regional and other operators and to and from these regional operators to and from international operators.

The Group uses the regional networks of the Svyazinvest Group to complete calls and other traffic including that originating from its direct subscribers in the city of Moscow.

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

23. RELATED PARTY TRANSACTIONS (CONTINUED)

The amounts of revenue and costs relating to the Svyazinvest Group were as follows

	2000	**1999**	**1998**
Revenues	5,645	5,426	7,344
Payments to other network operators	85	77	165

In addition, Svyazinvest participates in the dividends declared in the year, commensurate with its shareholding.

The amounts receivable and payable relating to the Svyazinvest Group were as follows

	2000	**1999**
Accounts Receivable	857	1,045

(d) Transactions with the Government

Other state bodies (‘Budget Organisations’), such as the Ministry of Defence and entities affiliated to the Government, primarily state controlled TV and radio companies, use the Group’s network to carry communications traffic and to broadcast across the country. In some cases, the service is in the nature of leased lines for which the Group charges below market rates.

The revenues arising from these services were as follows:-

	2000	**1999**	**1998**
Revenues	358	214	432

The amounts receivable and payable relating to such organisations were as follows

	2000	**1999**
Accounts Receivable	549	600

The Government also uses the Group’s expertise in acquiring communications equipment for various budget organisations. No charge is levied for these services.

(e) Transactions with Investees

The Group also transacts a wide variety of business with entities and companies in which it has investments, including associated companies over which it exerts significant interest. Such business includes telecommunications services, banking and the provision of pension arrangement to employees. In the opinion of the Directors, such business is conducted at arms’ length terms and at rates prevailing in the open market.

(In millions of Russian Roubles in terms of purchasing power of the Rouble at December 31, 2000)

23. RELATED PARTY TRANSACTIONS (CONTINUED)

A summary of these transactions is as follows:

	2000	1999	1998
Leasing income	20	-	-
Payments to other operators	140	180	316
Staff costs (pension payments)	133	72	7

Management and consultancy services are provided to certain of these companies free of charge.

Amounts included in the balance sheet relating to these entities were as follows:

	2000	1999
Cash at Bank	134	274
Accounts Payable	359	354
Lease receivables	32	-
Accounts Receivable	283	472
Marketable Securities (Bills of Exchange)	-	38
Investments – loans	229	-
Property, Plant and Equipment	584	535

Property, plant and equipment represents items purchased or for rental to a venture in which the company holds a 20% interest.

(f) Directors' remuneration

During the year the following were the members of the Board of Directors of the Company:

Until June 24, 2000	Until November 18, 2000	Until December 31, 2000
Shamshin V.A.	Shamshin V.A.	Belov V.Y.
Akhmerov I.R.	Zalogin Y.M.	Yemelianov N.P.
Belov O.G.	Lopatin A.V.	Lopatin A.V.
Vasin V.S.	Vasin V.S.	Vasin V.S.
Grigoryev B.P.	Persson U.	Polischuk V.A.
Ismailov N.I.	Finger G.M.	Finger G.M.
Kormilitsina L.A.	Yashin V.N.	Yashin V.N.
Korolev N.M.	Korolev N.M.	Korolev N.M.
Kreinin R.B.	Kreinin R.B.	Kreinin R.B.
Panchenko S.N.	Panchenko S.N.	Panchenko S.N.
Sidorov V.V.	Avdiyantc S.P.	Osipchuk A.I.

In 2000 the total remuneration of the directors amounted to 5 (1999: 4).

24. CAPITAL COMMITMENTS

At December 31, 2000, the Group had agreements with equipment vendors to purchase equipment to a value of 1,273. The Group's capital expenditure programme for the year to December 31, 2001 projects capital expenditure of 1,740. This has yet to be approved by the Board of Directors.

25. CONTINGENCIES

a) Legal proceedings

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

b) Taxation environment

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

c) Licenses

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

It is also a matter of public record that the Government intends to promote competition within the telecommunications industry, which may include the granting of additional long distance and international licenses to other operators. At present, it is not possible to determine the effects, if any, of changes in these matters on the results of operations or financial position of the Group.

d) Restructuring

There has been considerable speculation in the press that the Government was planning to restructure the national telecommunications sector. In its "Programme of Development of the Telecommunications Industry", presented to the Federal Government in December 2000, the Ministry of Communications has indicated that it will not contemplate a change to the Group's status as monopoly supplier of long distance and international communications until 2003-2004 at the earliest.

26. CREDIT RISKS MANAGEMENT

A portion of the Group's accounts receivable are from State and other public organisations. Collection of these receivables is influenced by political and economic factors. Management believe there are no significant unprovided losses relating to these or other receivables at 31 December 2000.

Financial instruments that could expose the Group to concentrations of credit risk are mainly trade and other receivables. The credit risk associated with these assets is limited due to the Group's large customer base and ongoing procedures to monitor the credit worthiness of customers and other debtors.

The Group makes cash deposits with several Russian banks. Management monitors the status of banks where deposits are maintained.

27. INTEREST RISKS MANAGEMENT

Trade and other receivables and payables (other than related party payables) are non-interest bearing financial assets and liabilities. Interest rates payable on the Group's loans are disclosed at Note 15.

28. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, Rostelecom has entered into a contract with one of the other shareholders of Telmos to acquire another 40% of the authorised and issued share capital of that company for a cash consideration of US$ 17 million approximately. This acquisition will give Rostelecom a controlling interest and the results and financial position of Telmos will be consolidated with effect from the date of acquisition.

29. NEW ACCOUNTING DEVELOPMENTS

For the consolidated financial statements for 2001, a new International Accounting Standards, IAS 39, "Financial Instruments: Recognition and Measurement" will come into effect. The Standard requires all financial assets and financial liabilities to be recognised on the balance sheet, including all derivatives. The Directors do not believe that the application of the standard will have a material impact on the Group's financial statements.

In addition, the IASC has also recently issued IAS 40 "Investment Property" also effective for financial statements covering periods beginning on or after 1 January 2001. The Directors do not expect IAS 40 to have any effect on the Group financial statements.