



OJSC Rostelecom
Audit Report
on financial statements
for the year ending December 31, 2003

March 2004

TRANSLATION OF ORIGINAL RUSSIAN VERSION

**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS
OF OJSC ROSTELECOM**

(Translation from Statutory Auditor's Report expressed in the Russian Language)

To the shareholders of OJSC Rostelecom

DETAILS OF THE AUDITING FIRM

Address: Russia 105062, Moscow, Podсосensky Pereulok, 20/12, building 1-1A.

State registration: Certificate of an entry made to the Uniform State Register of Legal Entities Concerning a Legal Entity Registered Before July 1, 2002; date of the entry - September 16, 2002, series 77 No. 008050714, registered by the Moscow Registration Chamber at No. 033.468 on August 30, 1994, main State Registration Number 1027739199333.

Audit License No. E003246, approved by Order No. 9 of the Russian Ministry of Finance dated January 17, 2003, for a term of five years.

DETAILS OF THE AUDITED ENTITY

Name: Open Joint Stock Company Long-Distance and International Telecommunications Rostelecom

Address: Delegatskaya Ulitsa, 5, 127091, Moscow, Russian Federation.

Date of State Registration: September 23, 1993

Registration Number: 021.833

Licenses to engage in licensed activities:

Type of activity	License number	Issued by	Date of issue	License term
Long-distance and international telecommunication services	29777	Ministry of Communications and informatization of the Russian Federation	December 11, 2003	December 11, 2013
Local telecommunication services	8701	State Committee of the Russian Federation on communication and informatization	October 17, 1997	November 01, 2005
Telematic services	3226	Ministry of Communications and informatization of the Russian Federation	May 15, 1997	May 05, 2007

Besides licenses listed above, OJSC Rostelecom has seven licenses to provide various types of telecommunication services.

We have audited the accompanying financial statements of OJSC Rostelecom for the period from January 1 through December 31, 2003 which are comprised of the balance sheet, the statement of income, the statement of changes in the shareholders' equity, the statement of cash flows, appendix to the balance sheet and the notes to the financial statements. The preparation and presentation of these financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the fairness, in all material respects, of these statements and on compliance of accounting procedures with the legislation of the Russian Federation based on our audit.

We conducted our audit in accordance with Federal Law Concerning Auditing Activity, approved Federal Rules (Standards) on Auditing, the Rules (Standards) for Auditing Activities, as approved by the Committee on Auditing Activity attached to the President of the Russian Federation, and International Standards on Auditing where they do not contradict the above Rules.

The audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit was performed on a selective basis and included an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements concerning the financial and business operations of the audited entity; an assessment of the accounting principles and methods, the rules used in the preparation of the financial statements, and significant estimates derived by the management of the audited entity; as well as the evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion on the fairness of these financial statements and on compliance of accounting procedures with the legislation of the Russian Federation.

In our opinion, the accounting procedures at OJSC Rostelecom insofar as they relate to the preparation of financial statements in 2003 complied with the requirements of Federal Law Concerning Accounting No. 129-FZ of November 21, 1996, and the aforementioned financial statements have been prepared in accordance with the said Law to ensure the fair reflection, in all material respects, of the financial position of OJSC Rostelecom as of December 31, 2003 and its financial results for the period from January 1 through December 31, 2003.

The accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Russia. Accordingly, the accompanying financial statements are not designed for those who are not informed about accounting principles, procedures and practices in Russia.

March 30, 2004

Vadim A. Balashov

Partner

Auditor's qualification certificate No. K003303 (general audit),
validity: prolonged on April 14, 2003 without limitation of duration

Michael G. Tabakov

Partner

Auditor's qualification certificate No. K002747 (general audit),
validity: prolonged on February 28, 2003 without limitation of duration

OJSC Rostelecom's Annual Financial Statements for 2003
(the balance sheet and the profit and loss statement)

BALANCE SHEET

as at **December 31, 2003**

Organization: **OJSC Rostelecom**

Taxpayer Identification Number:

Type of Activity: **Telecommunications**

Organizational and legal form/ form of ownership:

Open joint-stock company

Unit of measure: **Thousand rubles**

OKUD Form No. 1
Date (year, month, day)
OKPO code
INN
OKPD
OKOPF/ OKFS
OKEI code

Codes		
0710001		
01.01.2004		
17514186		
7707049388		
52300		
47		
384		

ASSET	Note	Line code	Index code	At the beginning of the reporting period	At the end of the reporting period
1	2	3	3a	4	5
I. NON-CURRENT ASSETS					
Intangible assets:		110	110	21	19
patents, licenses, trademarks (service marks), other similar rights and assets		111		21	19
formation expenses		112		x	x
goodwill		113		x	x
Fixed assets:	6.1	120	120	17,143,830	15,143,300
land plots and natural resources		121		137	586
buildings, plant and equipment		122		10,843,424	7,535,853
Construction in progress	6.2	130	130	2,863,205	4,515,418
Profitable investments in tangible assets:		135	135	-	-
property for leasing		136		-	-
property provided under lease contract		137		-	-
Long-term financial investments:	6.3	140	140	2,517,331	3,971,405
investments in subsidiaries		141		560,677	498,618
investments in associates		142		30,582	22,067
investments in other organizations		143		1,340,838	3,387,854
other long-term financial investments		144		585,234	62,866
Differed tax assets	6.14	145	145	102,680	-
Other non-current assets	6.4	150	150	385,225	398,925
TOTAL for Section I		190	190	23,012,292	24,029,067
II. CURRENT ASSETS					
Inventories:		210	210	690,868	730,211
raw materials, consumables, and other assets	6.5	211	211	526,354	566,245
livestock in breeding and feeding		212	212	-	-
work in progress costs (distribution costs)		213	213	53,753	11,226
finished products and goods for resale		214	214	6,450	4,520
shipped goods		215	215	-	-
deferred expenses		216	216	104,311	148,220
other reserves and expenses		217	217	-	-
Value-added tax on acquired assets		220	220	1,988,908	1,870,176
Accounts receivable (payment expected more than 12 months after the reporting date):		230	230	533,896	18,739
buyers and customers	6.6	231	231	160,836	-
bills of exchange receivable		232		373,160	18,219
other debtors		233		-	520
Accounts receivable (payment expected within 12 months after the reporting date):		240	240	9,274,870	8,808,024
buyers and customers	6.7	241	241	7,454,699	7,225,171
bills of exchange receivable	6.8	242		564,398	469,112
other debtors	6.8	243		1,255,773	1,113,741
amounts owed by participants (founders) in respect of		244		-	-

contributions to charter capital					
Short-term financial investments:	6.3	250	250	4,506,958	6,627,502
loans to organizations payable in less than 12 months		251		426,624	-
other short-term financial investments		253		4,080,334	6,627,502
Monetary assets:		260	260	1,043,957	1,835,117
cash		261		1,566	1,546
settlement accounts		262		700,732	1,595,083
foreign-currency accounts		263		274,094	235,746
other monetary assets		264		67,565	2,742
Other current assets		270	270	60	20
TOTAL for Section II		290	290	18,039,517	19,889,791
BALANCE (sum of lines 190+290)		300	300	41,051,809	43,918,858

LIABILITIES	Note	Line code	Index code	At the beginning of the reporting period	At the end of the reporting period
1	2	3	3a	4	5
III. CAPITAL AND RESERVES					
Charter capital	6.9	410	410	2,429	2,429
Own shares redeemed from shareholders	6.10	440	411	-	-
Additional capital		420	420	12,496,708	12,009,157
Reserve capital:		430	430	364	364
statutory reserves		431	431	364	364
reserves formed in accordance with foundation documents		432	432	-	-
Social fund		450		x	x
Undistributed profit of previous years		460		6,899,735	6,194,167
Uncovered losses of previous years		465		-	-
Undistributed profit of the reporting year		470	470	x	8,257,685
Uncovered losses of the reporting year		475		x	-
TOTAL for Section III		490	490	19,399,236	26,463,802
IV. LONG-TERM LIABILITIES					
Loans and credits	6.13	510	510	847,687	2,124,030
bank credits repayable more than 12 months after the reporting date		511		-	173,104
loans repayable more than 12 months after the reporting date		512		847,687	1,950,926
Deferred tax liabilities	6.14	515	515	-	588,505
Other long-term liabilities	6.15	520	520	6,444,195	2,488,443
TOTAL for Section IV		590	590	7,291,882	5,200,978
V. SHORT-TERM LIABILITIES					
Loans and credits	6.13	610	610	3,667,780	1,715,661
bank credits repayable within 12 months of the reporting date		611		50,301	75,526
loans repayable within 12 months of the reporting date		612		3,617,479	1,640,135
Accounts payable		620	620	10,303,024	10,221,799
suppliers and contractors		621	621	7,351,772	8,791,898
bills of exchange payable		622		319,298	96,170
amounts owed to employees		623	622	54,609	74,829
amounts owed to state extrabudgetary fund	6.16.1	624	623	9,976	57,687
amounts owed to the budget	6.16.1	625	624	718,035	362,312
other creditors	6.16.2	626	625	1,849,334	838,903
Income payable to participants (founders)		630	630	47,593	48,518
Deferred income	6.17	640	640	342,294	268,100
Provisions for expenses		650		x	x
Other short-term liabilities		660	660	-	-
TOTAL for Section V		690	690	14,360,691	12,254,078
BALANCE (sum of lines 490 + 590 + 690)		700	700	41,051,809	43,918,858

**STATEMENT
OF ASSETS ON OFF-BALANCE ACCOUNTS**

Item	Note	Line code	Index code	At the beginning of the reporting period	At the end of the reporting period
1			2	3	4
Rented fixed assets		910	910	1,012	2,881
including leased assets		911	911	-	1,908
Valuables in custody		920	920	3,721	3,475
Materials accepted for processing		921		-	-
Equipment accepted for assembly		922		-	170
Consigned goods		930	930	43	311
Bad debts written off as losses		940	940	6,345	39,194
Received security for obligations and payments		950	950	-	391
Issued security for obligations and payments		960	960	613,277	200,229
Depreciation of housing		970	970	221,803	189,620
Depreciation of amenities and similar facilities		980	980	670	1,089
Strict accountability forms		990	990	21	91
Leased fixed assets		991		-	3,461
Implements and economic accessories		992		-	192,292
Funds to pay for communications services		993		-	-
Intangible assets received for use		994		-	-

General Director

Dmitry Ye. Yerokhin

Chief Accountant

Alexander A. Lutsky

STATEMENT OF PROFIT AND LOSSES

as at **2003** year

Organization: **OJSC Rostelecom**

Taxpayer Identification Number:

Type of Activity: **Telecommunications**

Organizational and legal form/ form of ownership:

Open joint-stock company

Unit of measure: **Thousand rubles**

OKUD Form No. 2
Date (year, month, day)
OKPO code
INN
OKPD
OKOPF/ OKFS
OKEI code

Codes		
0710002		
01.01.2004		
17514186		
7707049388		
52300		
47		
384		

Item	Note	Line code	Index code	For the reporting period	For the same period of the preceding year
1	2	3	3a	4	5
I. Income and expenses for usual activities					
Proceeds (net) from sale of goods, products, work, services (less the VAT, excises, and similar obligatory payment):	7.1	010	010	29,927,943	25,408,768
Sale of telecommunication services		011		29,463,456	25,163,842
Cost price of goods, products, work, and service sold	7.2	020	020	(20,898,872)	(17,688,639)
Including telecommunication services		021		(20,469,609)	(17,263,623)
Gross profit		023	029	9,029,071	7,720,129
Trading costs		030		x	x
Management costs		040		x	x
Profit (loss) from sales		050	050	9,029,071	7,720,129
II. Operating income and expenses					
Interest receivable	7.3	060	060	219,176	239,673
Interest payable	7.3	070	070	(208,699)	(354,218)
Income from participation in other organizations	7.3	080	080	31,005	88,408
Other operating income	7.3	090	090	18,008,866	11,497,186
Other operating expenses	7.3	100	100	(16,872,864)	(11,029,909)
III. Non-sales income and expenses					
Non-sales income	7.4	120	120	4,473,281	11,229,732
Non-sales expenses	7.4	130	130	(3,986,673)	(14,104,656)
Profit (loss) before tax		140	140	10,693,163	5,286,345
Income (expenses) for deferred tax assets (liabilities)	7.6	151	142	(691,185)	0
Effective tax on profit	7.6	153	150	(2,093,901)	(2,163,184)
Penalties for tax and other payments	7.6	154		(998)	(23,517)
Profit (loss) from usual activities		160		7,907,079	3,099,644
IV. Extraordinary income and expenses					
Extraordinary income		170		-	-
Extraordinary expenses	7.5	180		(7,755)	(4,228)
Net profit (undistributed profit (loss) for the reporting period)		190	190	7,899,324	3,095,416
FOR INFORMATION					
Permanent tax obligations		200	200	238,516	
Basic income (loss) per share	7.7	301		9,7563	3,8231
Diluted income (loss) per share	7.7	302		9.7563	3,8231

INDIVIDUAL INCOME AND EXPENSE ITEMS

Item	Line code	For the reporting period		For the same period of the preceding year	
		profit	loss	profit	Loss
1	2	3	4	5	6
Fines, penalties, and charges acknowledged by payer or payable pursuant to the decision of a court (arbitral tribunal)	401	273,668	93,322	16,507	1,314
Accumulated income (loss)	402	407,901	624,495	11,151,338	11,896,645
Compensation for losses caused by nonperformance or undue performance of obligations	403	6,436	480	6,751	125
Exchange-rate differences in foreign-exchange operations	404	25,565	-	-	-
Provision expenses	405		X	X	X
Write-off of receivables and payables upon expiration of limitation period	406	288	26,556	475	1,187

General Director

Dmitry Ye. Yerokhin

Chief Accountant

Alexander A. Lutsky