

**EXPLANATORY NOTES**  
**to financial statements of**  
**JSC CenterTelecom for 2003**

**Joint-Stock Central Telecommunication Company**  
**Explanatory notes to financial statements for 2003**

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# **Joint-Stock Central Telecommunication Company**

## **Explanatory Notes to Financial Statements for 2003**

### **2. General/Background**

Joint-Stock Central Telecommunication Company, abbreviated name JSC CenterTelecom, Individual Unique Taxpayer Identification Number 5000000970, (henceforth “the Company”) was registered pursuant to Ordinance of the Chief of Administration of the Moscow region # 567-r of June 09, 1994 and registered in the register under # 50:10:00124 on July 23, 1997 by the Moscow Region Registration Chamber. Average over the year number of employees in 2003 was 69,847 (72,088 employees in 2002). The Company registered address is 23 Proletarskaya Street, Khimki, Moscow region, 141 400, Russia.

The core business activities of the Company according to licenses granted to it are:

- provision of local and intra-tariff band telephone service;
- provision of local, domestic long-distance and international telephone service using public payphone and public telecommunications offices;
- provision of local, domestic long-distance and international telephone service
- provision of cellular mobile communications service (using GSM-900, GSM-1800, NMT-450, AMPS/D-AMPS standards);
- provision for lease of physical circuits, channels and network path, including broadcasting channels;
- provision of telematic (including e-mail, access to information resources, information and directory services, Telefax, Comfax service, Burofax, message handling service, voice-mail, voice message transmission, audio and video conference calls, Internet);
- data services;
- provision of radio area network (trunking);
- Intelligent Network (IN) services;
- telegraph services (including telegrams, AT/T (subscriber) telex);
- radio-telephone services;
- provision of wireless local telephone services based on CDMA;
- provision of mobile radio-telephone service;
- wireline broadcasting services;
- on-air transmission of TV programs;
- on-air transmission of sound programs and transmission of additional information;
- provision of wireless radio access;
- TV multicast over cable TV networks;
- personal paging services using compression of VHF RF channel;
- mobile radio service;
- broadband wireless access;
- TV and sound program broadcasting;
- testing and measurements of electric power installations and sites, their parts and components in the course of installation, mounting, provisioning, operation and repair;
- publishing and printing activities;
- telecommunications service certification;
- implementation of quality management systems;
- arranging restoration of networks and services after faults and failures;
- marketing research;
- construction of buildings carrying Level 1 and 2 responsibilities according to state (public) standards;

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- civil engineering surveys for construction of buildings carrying Level 1 and 2 responsibilities according to state (public) standards;
- design of buildings carrying Level 1 and 2 responsibilities according to state (public) standards
- operation of explosion hazardous production facilities;
- operation of fire hazardous production facilities;
- operation of weight lifting machinery and installations;
- operation of heat transfer and electric power grids;
- transportation of passengers using auto-vehicles;
- cargo transportation using auto-vehicles;
- technical maintenance and repair of transportation vehicles;
- operation of petrol filling stations;
- activities involving precious metals;
- gathering, processing and sale of no-ferrous scrap;
- operation of engineering systems in towns and populated settlements;
- special water utilization;
- underground resource utilization:
- comprehensive utilization of natural resources;
- environment protection services (works);
- educational activities;
- health and medical activities;
- pharmaceutical activities;
- trade;
- surveying;
- cartographic activities;
- implementation, repair and maintenance of fire protection/extinguishing devices and installation in building and facilities;
- cartography/map drawing activities;
- storage of crude oil, natural gas and oil products;
- realization of crude oil, natural gas and oil products;
- accommodation activities;
- hazardous waste handling;
- ensuring security of the Company activities;
- state secret protection activities;
- technical means of protection of confidential and proprietary information;
- implementation as required of plans to ensure robust operations and restoration of networks in case of emergency;
- metrological assurance, operation and repair of measurement devices;
- activities involving production and exchange of ethyl hydroxide, alcohol and alcohol containing substances;
- maintenance, repair, procurement and distribution of cash registers;
- research and development;
- external economic activities.

The Company registrar is **Private Joint-Stock Company Registrar-Svyaz**

The Auditor of the Company is **Private JSC Ernst and Young Vneshaudit**

Members of the Board of Directors:

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Chairman of the Company Board of Directors:

- **Mr. Valeriy N. Yashin**, General Director, JSC Svyazinvest;

Members of the Board of Directors:

- **Mr. Ruben A. Amaryan**, General Director, JSC CenterTelecom;
- **Mr. Boris Dm. Antonyuk**, First Deputy Minister for Communications and Informatics;
- **Mr. Stanislav P. Avdians**, Executive Director – Director of Economic Policies and tariff Department, JSC Svyazinvest;
- **Mr. Vadim E. Belov**, Deputy General Director, JSC Svyazinvest
- **Mr. Alexander P. Gribov**, Deputy Head of Division, Russian Federal Property Fund
- **Mr. Alexander V. Ikonnikov**, Executive Director  
Investor Right Protection Association
- **Mr. Alexander V. Lopatin**, Deputy General Director, JSC Svyazinvest
- **Mr. Aleksey B. Panteleev**, First Deputy Chairman of the Moscow region Government;
- **Ms. Oksana V. Petrova**, Deputy Chief, Corporate Governance Department, JSC Svyazinvest;
- **Mr. Grigoriy M. Finger**, Executive Director  
Moscow Representative Office of NCH Advisors Inc.

Members of the Management Board of the Company:

Chairman of the Management Board:

- **Mr. Ruben A. Amaryan**, General Director, JSC CenterTelecom;

Members of the Management Board:

- **Aleksey A. Lokotkov**, First Deputy General Director – Financial Director, JSC CenterTelecom
- **Maksim A. Pegasov**, Deputy General Director – Technical Director, JSC CenterTelecom;
- **Sergei V. Pridantsev**, Deputy General Director – Commercial Director, JSC CenterTelecom;
- **Valeriy P. Sychev**, Deputy General Director for Security and Confidentiality Enforcement, JSC CenterTelecom;
- **Ella M. Zhuravleva**, Deputy General Director – Personnel Director, JSC CenterTelecom
- **Raisa P. Konstantiniva**, Chief Accountant, JSC CenterTelecom;
- **Tatyana N. Sotskova**, Director of Legal Department, JSC CenterTelecom;
- **Alexander I. Polnikov**, Executive Director – Director of Capital Investment Management Department, JSC Svyazinvest;
- **Nikolay V. Mezhev**, Deputy General Director – Director of Moscow Subsidiary of JSC CenterTelecom;
- **Alexander V. Khaustovich**, Deputy General Director – Director of Voronezhsvyazinform - a Subsidiary of JSC CenterTelecom.

Members of the Audit Commission of the Company:

- **Konstantin V. Belyaev**, Chief Accountant, JSC Svyazinvest;
- **Lyubov A. Greseva**, Chief Expert, Internal Audit Department, JSC Svyazinvest;

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- **Elena N. Kukudzhanova**, Chief expert, Internal Audit Department, JSC Svyazinvest
- **Irina V. Prokofieva**, Director of Internal Audit Department, JSC Svyazinvest
- **Kirill V. Frolov**, Deputy Director – Head of Division, Internal Audit Department, JSC Svyazinvest

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**3. Accounting Policies**

The accounts of the Company are prepared on the basis of the following accounting policies:

**Basis for preparation**

The accounts are prepared based on effective rules of accounting and financial reporting of the Russian Federation, as set forth in the Federal Law On Accounting and Rules of financial accounting approved by the Ministry of Finances of the Russian Federation.

**Foreign Currency Denominated Assets and Liabilities**

In accounting for business transactions conducted in foreign currencies the official exchange rate of the currency and the Russian rouble (RUR) effective on the transaction date was applied. Cash assets and liabilities valued in foreign currencies were posted to the accounts in amounts calculated according to the official rouble exchange rate effective on December 31, 2003 and equal to RUR29.4545 per USD1, RUR36.8240 per Euro1, and RUR27.5353 per 100 Japanese yens.

Foreign currency translations over the year arisen during the year in relation to transactions with assets and liabilities, and their translation at the balance sheet date, are charged to profit and loss account.

**Short-term and long-term assets and liabilities**

In the financial statement assets (liabilities) are treated as short-term, if their maturity term does not exceed 12 months after the balance sheet date. All other assets and liabilities are treated in the financial statements as long-term ones.

**Intangible assets**

Intangible assets include the Company trade mark and exclusive intellectual property rights. Amortization of these assets was calculated by straight line method. Expected useful life of intangible assets is determined at the moment of their registration for accounting purposes by a specially set-up commission and approved by The Company General Director. Useful life of the trade mark is 10 years; exclusive intellectual property rights last for 5 years.

Intangible assets in the accounts are shown at the original value less amortization accrued over the usage period.

The original value of intangible assets procured in exchange for merchandise (items of value) different from cash funds is recognized as the value of transferred or to be transferred assets. The latter is determined based on the price at which the Company normally valued similar goods (value items) in comparable circumstances.

**Fixed Assets**

Fixed assets include buildings, facilities, equipment, transportation vehicles, computers, office equipment, land plots, machinery and other item with useful life of over 12 months, used for rendering services and product manufacturing, or for management purposes of the Company capable of bringing economic benefits.

Fixed assets items are recognized for accounting purposes at the actual acquisition (construction) cost.

The original value of fixed assets procured in exchange for merchandise (value items) different from cash funds is recognized as the value of transferred or to be transferred assets. The latter is determined based on the price at which the Company normally valued similar goods (value items) in comparable circumstances.

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Intangible assets in the accounts are shown at the original (replacement) value less amortization accrued over the whole usage period.

For fixed assets purchased before January 1, 2002 depreciation rates were set by each subsidiary independently on the basis of General Depreciations rates approved by Order #1072 dated October 22, 1990 of the Cabinet of Minister of the former USSR. For fixed assets purchased after January 1, 2002 depreciation rates for main groups of fixed assets were set on the basis of Order # dated January 1, 2002 of the Government of the Russian Federation.

Fixed assets depreciation was calculated by straight line method according to rates determined on the basis of adopted useful life terms.

building used in production	from 5 up to 100 years
transmission and other facilities	from 5 up to 59 years
telecommunications equipment	from 3 up to 30 years
transportation vehicle	from 3 up to 10 years
computers and office equipment	from 3 up to 10 years
other facilities	from 2 up to 30 years

No depreciation was charged for land plots and housing facilities.

Fixed asset items valued at less than RUR10,000 per unit, as well as books, brochures, other publications were charged to production costs (sales costs) as they are released for production or put into operation using account 02 Fixed asset depreciation.

Costs of all types of repair are included into costs of ordinary activities in the reporting period. No provisions were allocated to finance deferred costs of fixed asset repair.

Interest accrued on loans secured for financing acquisition (construction) of fixed assets before they adopted for accounting purposes are included in the original value of these assets. Interest accrued after the relevant fixed asset item was adopted for accounting purposes are reflected in the profit and loss account as a part of operation expenses.

Depreciation of fixed assets received under capital lease (leasing) and accounted for as fixed assets of the Company was charged using straight line method based on 15 years of useful life starting from bringing the fixed asset item into service. An accelerated depreciation factor was applied specified by the contract and equal to 3.

### **Financial investments**

Financial investments for which their current market values were not determined are reflected on the balance sheet at their original cost.

Original value of financial investment:

- acquired at a price is defined as the Company's actual acquisition costs;
- acquired under contracts stipulating meeting obligations (payments) through non-cash funds is defined as the value of assets transferred by the Company;
- invested as contributions in the capital of daughter, affiliated and other entities is defined as a monetary value agreed by founders (participants) of these entities.

Financial investments for which at the end of 2003 a steady decline of the value is recognized are shown on the balance sheet less allocated provisions for devaluation of financial investments. The amount of provisions of RUR3,486 thousand is charged to increase of operating expenses.



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Financial investment for which organizers of trading in securities on stock market calculated current market values pursuant to applicable rules are shown on the balance sheet at the current market price at December 31, 2003 by adjusting the value of these investments. The adjustment amount totaling RUR3,453 was charged to the increase of operating expenses.

Non-issued retired securities for which market values were not were determined are valued at the actual price of any such securities in the of event of sale or retirement.

#### **Inventories**

Inventories are valued at the amount of the actual acquisition costs.

Retiring inventories (except precious metals) are valued at average costs.

Precious metals are written of at the cost of each unit.

Inventories with falling market value in the reporting period or becoming obsolete, or completely or partially losing their original qualities are recognized on the balance sheet at the reporting year end at the current market given the actual state of inventories. Reduction in the inventories values are shown on the balance sheet as allocated provisions.

Provisions for falling value of inventories are allocated on per unit basis for each inventory item accepted for accounting purposes. In 2003 the Company allocated no provisions for reduced value of inventory items.

Inventories transferred as a pledge are valued at the price accepted in accounting.

#### **Deferred expenses**

Expenses made by the Company in the reporting period but related to subsequent accounting periods are shown as deferred expenses. These expenses are written off evenly to the relevant item in the period to which they are referred.

#### **Indebtedness of customers and purchasers**

Debt of customers and purchasers is shown including VAT payable to the budget upon receiving payment in respect of accounts receivable and determined based on prices identified by contracts between the Company and customers (purchasers) given all discounts (premium). If it is unrealistic to expect payment of account receivable the relevant amount is written off the balance sheet as it is deemed unrecoverable.

Debt remaining unrepaid when due according to contracts and unsecured with relevant guarantees is shown less doubtful debt provisions.

The amount of doubtful debt provisions is identified separately for each unpaid debt based on taking stock depending on solvency of the debtor and probability of debt repayment.

Since it is virtually impossible to analyze separately each doubtful debt in respect of telecommunications services rendered by a telecommunications company due to enormous number of subscribers doubtful debt provisions were allocated to the full amount (100 percent) of debt with respect of all unpaid debt overdue by over 90 days at the moment of provisions allocation. No provisions were allocated for debt less than 90 days overdue.

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Doubtful debt provisions are charged to increase of operating expenses.

#### **Additional capital and reserves**

Additional capital is formed due to increase of fixed asset value determined by revaluation.

The Company shall allocate reserves intended for covering its losses and redemption of bonds and repurchase of the Company shares. Reserves are allocated from the Company's net profit.

Dividends payable are recognized as liabilities and deducted from the capital at the reporting date, and disclosed in the financial statements only if declared before or on the reporting date.

In 2003 due to completion in the Company's Moscow subsidiary of analytical data recovery on account 83.01 Capitalization of positive adjustments of the additional capital profit of previous years totaled RUR26,515 thousand was shown as revaluation of retired as on January 1, 2003 fixed assets.

#### **Loans and credit facilities granted to the Company**

The Company transfers long-term debt on loans and credits granted to the Company into short-term liabilities at the moment when according to terms and conditions of loan and/or credit facilities there were 365 days before maturity of the principal.

Additional costs incurred in connection with granting loans or credits include expenses related to:

- rendering legal and consulting services to the Company;
- carrying out expert examinations;
- communications costs;
- other costs directly involved in receiving loans in cash funds.

Additional costs related to receiving loans and credits, placement of debt instruments are referred to the period in which the said costs were incurred.

Interest on the granted credits (loans) is accrued monthly according to relevant agreement.

For loans granted in a monetary form and raised by issuing bills of exchange by the Company itself, the amount of discount payable to the note holder shall be charged to deferred expenses and further written off as operating costs monthly in equal shares over the period before maturity.

For loans granted in a monetary form and raised by issuing bills of exchange by the Company itself, in the event of sales of issued bonds at the price different from the nominal value (including the discount), the discount shall be charged to deferred expenses and further written off as operating costs monthly in equal shares over the period before the bond maturity.

#### **Settlements with respect to profit tax**

In 2003 deferred tax assets and liabilities related to profit tax to be met in the subsequent reporting period are calculated and reflected in accounts and financial reporting.

Deferred tax assets and liabilities are calculated in relation to differences arising in time and are income and expenses included in balance sheet profit (loss) in one reporting period, while being included in the tax basis for profit tax in other reporting periods.

Deferred tax assets are the part of deferred profit tax that shall result in a decrease of the profit tax payable to budget in the year following the reporting year or in subsequent reporting periods. They

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are calculated by applying the tax rate set by the Russian law on tax and levies to differences formed in the reporting period that should be subtracted.

Deferred tax liabilities are the part of deferred profit tax that shall result in an increase of the profit tax payable to budget in the year following the reporting year or in subsequent reporting periods. They are calculated by applying the tax rate set by the legislation of the Russian Federation on taxes and duties, to differences formed in the reporting period.

Current profit tax is recognized as the tax calculated for taxation purposes pursuant to provisions of Chapter 25 of the Tax Code of the Russian Federation and specified in the accounts based on the amount of the conditional profit tax adjusted taking into account the permanent tax assets and obligations and deferred tax assets and obligations of the reporting period.

Current profit tax is recognized in the accounts as liabilities toward budget equal to the unpaid profit tax.

Conditional cost (income) on profit tax is calculated by multiplying the balance sheet profit (loss) by the profit tax rate set forth by the legislation of the Russian Federation on taxes and duties.

Actually overpaid profit tax amounts paid to budgets of constituent entities of the Russian Federation and local municipal budgets are included in accounts receivable.

#### **Revenue recognition policy**

The Company revenues are divided into ordinary activities revenues and other revenues (operating, non-sales and extraordinary income).

Revenues from sales of products and services rendered are posted on accrual basis, i.e. as services are provided, and shown in the accounts less VAT, sales tax, customs duties and discounts and benefits provided to customers.

Revenues from barter operations (exchange of merchandise) are determined on the basis of values of items, received or to be received by the Company, calculated according to prices the Company normally uses in for valuation of similar items in comparable circumstances.

Revenues from provision of assets by Company for lease are normally included in revenues from ordinary activities.

#### **Costs and expense recognition**

Expenses depending on their nature and activities are divided into ordinary activities expenses and other expenses (operating, non-sales and extraordinary expenses).

Ordinary activities expenses are formed in the amount in monetary terms equal to payment amount in cash and other form, or accounts payable.

The Company calculates total production costs of the services rendered, works performed not separating organizational and commercial expenses.

#### **State (government) aid**

Budget funds received as state aid (subsidies, grants) are recognized as monetary funds and resources different from monetary funds are actually received and shown in the balance sheet included in deferred income.

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#### **Special purpose financing**

Funds for special purpose financing are recognized as monetary funds and resources different from monetary funds are actually received and shown in the balance sheet included in deferred income.

#### **Pension expenses**

The Company pays contributions to the Pension Fund of the Russian Federation and to social insurance and employment funds covering its employees. The Company contributions into the state Pension Fund are amounted to 25 percent of the payroll costs and are charged to expenses as they are accrued.

In addition to state pension fund the Company participates in the program of one-time aid payments. The program covers a major part of the Company's employees and does not include any special fund charges. The payment amounts depend on the total work period by retirement.

AS in 2003 collective employment contracts were in force in the Company subsidiaries the following payments were made in the event of retirement:

##### **- Moscow subsidiary**

one-time allowance totaled 100 percent of the monthly salary to employees who had worked for the Company for over 25 years;

one-time allowance to employees not covered by non-government retirement scheme and terminating their employment contracts within one month after reaching retirement age depending on the service period:

from 5 up to 15 years of work: 50 percent of the monthly salary;

over 15 years: 100 percent of the monthly salary;

##### **- Belsvyaz – a subsidiary of JSC CenterTelecom**

No one-time payments. The collective employment contract renewed for 2003;

##### **-Bryansksvyazinform - a subsidiary of JSC CenterTelecom**

A one-time allowance depending on the period of work for the Company:

less than 5 years: a monthly salary amount

from 5 to 10 years: twice the monthly salary amount

from 10 to 25 years: the amount of three monthly salaries

over 25 years: the amount of five monthly salaries

##### **- Elektrosvyaz of the Vladimir region – a subsidiary of JSC CenterTelecom**

A one-time allowance depending on the period of work for the Company:

for less than 10 years – 10 % of monthly salary;

from 10 to 20 years – 75 % of monthly salary;

over 20 years – 100 % of monthly salary;

##### **- Voronezhsvyazinform - a subsidiary of JSC CenterTelecom**

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A one-time allowance (severance pay) depending on the period of work for the Company:

over 10 years: an amount of the monthly salary;

over 15 years: twice the monthly salary;

over 20 years: quadrupled monthly salary;

over 25 years: an amount of seven monthly salaries;

over 30 years: ten monthly salaries;

**- Kaluzhski subsidiary of JSC CenterTelecom**

one-time severance pay totaling 65 percent of the monthly salary depending on the work time over 10 years in the Company;

**- Kostromatelecom - a subsidiary of JSC CenterTelecom**

no one-time allowances;

**- Kurski subsidiary**

one-time allowance in the amount of 10% of the monthly per every year of work for the Company;

**- Ivtelecom - a subsidiary of JSC CenterTelecom**

one-time allowance to employees not covered by non-government retirement scheme and terminating their employment contracts within one month after reaching retirement age depending on the service period:

from 3 to 5 years: a monthly salary amount;

from 5 to 10 years: twice the monthly salary amount;

from 10 to 20 years: three monthly salaries;

over 20 years: five monthly salaries.

**- Lipetskelektrosvyaz - a subsidiary of JSC CenterTelecom**

one-time allowance to employees who reached the retirement age and had worked continuously on telecommunications industry:

for less than 10 years: a half of monthly salary;

for 10 years and more: monthly salary amount.

**- Orlovski subsidiary of JSC CenterTelecom**

one-time allowance in the amount of 100 % of monthly salary subject to work period in the Company of over 10 years.

**- Ryazanski subsidiary of JSC CenterTelecom**

one-time allowance to employees in the amount of 100 % of monthly salary if work period in the Company is over 5 years.

**- SmolenskTelecom - a subsidiary of JSC CenterTelecom**

A one-time allowance depending on the period of work for the Company:

from 10 to 15 years – 100 % of monthly salary;

from 15 to 20 years – 200 % of monthly salary;

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over 20 years – 300 % of monthly salary;

**- Tambovskaya Elektrosvyaz - a subsidiary of JSC CenterTelecom**

one-time allowance to employees who worked in the subsidiary for at least 10 years upon retirement in the amount of up to monthly salary;

**- Tverskoy subsidiary of JSC CenterTelecom**

one-time allowance in the amount of monthly salaries payable to employees working in the Company for over 10 years, not covered by non-government retirement scheme and terminating their employment contracts within one month after reaching retirement age depending on the service period:

**- TulaTelecom - a subsidiary of JSC CenterTelecom**

one-time allowance to employees not covered by non-government retirement scheme depending on the work period and working contribution in the amount of 3 average monthly salaries and additionally:

work period of over 10 years – RUR7.5 thousand;

work period of over 20 years – RUR12.5 thousand;

**- Yartelecom - a subsidiary of JSC CenterTelecom**

one-time allowance to employees working in the Company for over 10 years in the amount of 10 average monthly salaries

The Company also participates in a retirement plan with specified in advance contributions payable within the framework of non-government pension plan. The contribution amounts are specified annually and charged to expenses as incurred. Cf. also par. 10 of the Notes.

**Stock taking of inventories and liabilities are carried out:**

- for fixed assets – at least biannually as on November 1 of the reporting year;
- intangible assets – annually as on December 1 of the reporting year;
- construction in progress and other capital investments - annually as on November 1 of the reporting year;
- raw materials and other, equipment to installed, half-finished products, goods, merchandise for sale in warehouses – annually as on November 1 of the reporting year;
- precious metals – twice a year;
- production in progress – quarterly as at the quarter end;
- deferred income and expense – annually as on December 1 of the reporting year;
- cash funds on account with banking institutions – annually as on December 1 of the reporting year;
- cash funds with cashier offices – at least once a quarter;
- long-term financial investments – annually as on December 1 of the reporting year;
- short-term financial investments, cash instruments – quarterly as at the quarter end;
- accounts receivable and doubtful debt provisions – quarterly as at the quarter end;
- account settlements with creditors (settlements with telecom operators) – quarterly as at the quarter end, with other creditors – once a year as on December 31 of the reporting year;
- tax settlements and mandatory payments to budget and non-budgetary funds – at least once a year;
- special purpose financing – annually as on December 31 of the reporting year;

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- intra-company settlements – at least once a quarter;
- payments to employees, advance holders – annually as on December 31 of the reporting year.

#### **Changes in the accounting policies for 2003**

The Company accounting policies for 2003 were changed pursuant to new Accounting rules taking effect on January 1, 2003.

Accounting rules R&D, technology designs and development (PBU 17/2002) set forth accounting rules and expenses charging for completed and ongoing R&D, design and technology development works.

In 2003 pursuant to accounting rule Accounting for profit tax (PBU 18/2002) the following items are reflected in the accounts: conditional expenses (income) in respect of profit tax, current profit tax, permanent tax assets and liabilities, deferred tax assets and liabilities to be paid in subsequent reporting periods.

Application of rules set out by PBU 18/2002 the Company tax profit expenses grew by RUR121,093 thousand.

In order to make the Company profit tax expenses for 2002 comparable with 2003 expenses the Company adjusted the 2002 data as if PBU 18/2002 rules were applicable.

The results of adjustments were reflected in the accounts for 2003 as follows:

➤ the following brought over balance was entered into the balance sheet as on January 1, 2003: line 145 Deferred tax assets in the amount of RUR12,941 thousand and in line 515 Deferred tax liabilities in the amount of RUR238,219 thousand; the amount in line 460 Undistributed profit of previous years was reduced by RUR225,278 thousand;

➤ profit and loss account: column "For the same period previous year" the following profit tax expenses were entered: RUR766,322 thousand, including line 152 Deferred tax assets in the amount of RUR8,427 thousand, and RUR238,219 thousand in line 151 Deferred tax liabilities;

➤ statement of changes in equity: line 301 Changes in the accounting policies reflected decrease of the undistributed profit in the amount of RUR225,278 thousand.

In 2003 pursuant to Accounting rules - Financial investment accounting (PBU 19/2002) the Company increased the value of financial investments, listed on securities market, up to their market value to the amount of RUR3,453 thousand, and allocated provisions for devaluation of financial investments due to steady significant reduction in their price to the amount of RUR3,486 thousand.

The Company did not revalue financial investments up to their current market value as on December 31, 2002, as the Company does not own any significant financial investments listed on securities market, and did not allocate provisions for devaluation of financial investment due to their insignificance.

#### **Changes in the accounting policies for 2004**

No significant changes in the accounting policies for 2004.

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**4. Comparable data**

Comparable data in the Company's account for 2003 were obtained by adjusting finalized accounting figures for 2002 in order to make them compliant with changes introduced in the accounting forms for 2003.

Changes in the brought-over balance as on January 1, 2003

Balance sheet items of 31.12.2002		Balance sheet items of 01.01.2003		Difference	Notes
Line	Value	Value	Line		
110	297	297	110	0	
120	17,549,070	17,549,273	120	203	Depreciation brought over from account 03 and account 08
130	1,878,032	1,878,008	130	-24	Depreciation brought over from account 08
135	2,071	1,892	135	-179	Depreciation brought over from account 03
140	123,959	123,959	140	0	
141	91,162	91,647	141	485	Changes of classification, line 142
142	12,005	10,828	142	-1,177	Changes of classification, line 144
143	8,162	304	143	-7,858	Changes of classification, line 144
144	2,533	X	X	-2,533	Changes of classification, line 144
145	10,097	21,180	144	11,083	Changes of classification, lines 142, 143, line (see above) deleted
X	X	12,941	145	12,941	Brought-over balance of deferred tax assets (brought over from undistributed profit of previous years).
150	0	307,372	150	307,372	Other non-current assets, added with deferred expenses in the amount of RUR52,307 and advances of capital nature of RUR255,065
190	19,553,430	19,873,742	190	320,312	Other non-current assets, added with deferred expenses of RUR52,307 and advances of capital nature of RUR255,065, and reflected brought over balance of deferred tax assets (brought over from undistributed profit of previous years).
210	647,352	595,045	210	-52,307	Deferred expenses are transferred to other non-current assets.
211	485,581	485,581	211	0	
212	7	0,	212	-7	Cattle for feeding were transferred to other inventories
213	252	252	213	0	
214	38,416	38,416	214	0	
215	200	200	215	0	
216	122,896	70,589	216	-52,307	Deferred expenses were transferred to other inventories.
217	,	7	217	7	Cattle for feeding were transferred to other inventories
220	789,585	789,585	220	0	
230	16,739	42,568	230	25,829	<b>LOANS, ADVANCES, LEASE SETTLEMENTS WERE TRANSFERRED FROM SHORT-TERM ACCOUNTS RECEIVABLE.</b>



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Balance sheet items of 31.12.2002		Balance sheet items of 01.01.2003		Difference	Notes
Line	Value	Line	Value		
231			231		
232			X		Bills of exchange received were transferred to purchaser debt
234	10,836	26,213	232	15,377	Advances were transferred from short-term accounts receivable
235	5,903	16,355	233	10,452	Transfer of long-term part of loans from line 246
240	2,025,227	1,743,578	240	-281,649	See notes to lines 241, 242, 243
241	1,260,034	1,259,330	241	-704	Bills of exchange received were transferred to purchaser debt, and settlement with customers eligible for benefits were reflected according to new chart of accounts.
242	386	X,	X	-386	Bills of exchange received were transferred to purchaser debt
245	440,983	170,545	242	-270,438	Transferred to long-term part and other non-current assets.
246	317,625	313,703	243	-3,922	Transferred to line 235, more detailed balance, settlements with daughter and affiliated companies were transferred
250	2,294	16,110	250	13,816	Deposit account were transferred to line 250 according to PBU 19
260	303,875	288,991	260	-14,884	Cash instruments were transferred to other current assets, and deposit accounts were transferred to line 250
270	,	1,067	270	1,067	Cash instruments were transferred from line 260 to other current assets
290	3,785,072	3,476,944	290	-308,128	Transfer to non-current assets and detailed balance of tax settlements
300	23,338,502	23,350,686	300	12,184	Detailed balance of tax and duties settlements, deferred assets and liabilities are reflected
410	-631,200	-631,200	410	,	
420	-6,405,533	-6,405,533	420		
430	-27,838	-27,838	430	,	
440	,	X	X		
440	X		440		
460	-5,901,703	-6,760,727	460	859,024	<u>Change of profit of previous years due to adding 2002 profit</u> totaling RUR1,084,300, reflected brought over balance of deferred tax liabilities in the amount of RUR238,219 and assets of RUR12,941
465		X	465		
470	-1,084,300	X	470	-1,084,300	The 2002 profit was transferred to undistributed profit of previous years.

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Balance sheet items of 31.12.2002		Balance sheet items of 01.01.2003		Difference	Notes
Line	Value	Value	Line		
475		X	475		
490	-14,050,574	-13,825,298	490	-225,276	Brought-over balance of deferred tax liabilities totaling RUR238,219 and assets of RUR12,941
510	-1,982,401	-1,944,461	510	-37,940	Transferred to short-term part.
511	-985,046	-981,013	511	-4,033	Long-term credits transferred to short-term ones.
512	-997,355	-963,448	512	-33,907	Long-term loans transferred to short-term ones.
515	X	-238,219	515	238,219	Brought-over balance of deferred tax liabilities
520	-1,270,415	-1,323,357	520	52,942	Debt on 31.12.2002 for leasing payments transferred on 01.01.2003 to other long-term liabilities in the amount of RUR52,942
590	-3,252,816	-3,506,037	590	253,221	See explanations of lines 510, 515, 520
610	-2,381,061	-2,398,253	610	17,192	See explanations of lines 611, 612
611	-1,611,849	-1,654,894	611	43,045	<b>SHORT-TERM CREDITS TRANSFERRED FROM LONG-TERM ONES.</b>
612	-769,212	-743,359	612	-25,853	Short-term loans transferred from long-term ones.
620	-3,231,745	-3,198,753	620	-32,992	See explanations of lines 621, 623, 624, 625, 626, 622
621	-1,490,143	-1,701,724	621	211,581	Debt reflected on 31.12.2002 as short-term transferred on 01.01.2003 to long-term debt in the amount of RUR174,556, bills of exchange issued were transferred to suppliers' debt in the amount of RUR37,025
622	-37,025		X	-37,025	Bills of exchange issued were transferred to suppliers' debt in the amount of RUR37,025
623	0	0	X		
624	-135,470	-135,470	623		
625	-73,684	-73,684	624		
626	-442,887	-439,917	625	-2,970	Debt in respect of cancelled taxes was transferred to settlements with budgets, detailed balance
627	-456,245	-454,186	622	-2,059	Advances received were transferred to line 520
628	-596,291	-393,772	626	-202,519	Other creditors were transferred to lines 621 and 520
630	-31,074	-31,074	630		
640	391,229	391,271	640	42	Advance payments as rebates of benefits were transferred to line 620 according to new chart of accounts
690	-6,035,111	-6,019,351	690	-15,760	Advance payments balance was detailed, transfer to long-term part.
700	-23,338,502	-23,350,686	700	12,184	Balance of payments with respect to taxes and duties was detailed, deferred assets and liabilities reflected.
910	718,418	1,071,320	901	352,902	Adjustments according to new chart of accounts, balance restored.

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Balance sheet on 31.12.2002		Balance sheet on 01.01.2003		Difference	Notes
Line	Value	Value	Line		
911	447,718	800,647	911	352,929	Adjustments according to new chart of accounts, balance restored.
920	26,174	7,418	902	-18,756	Adjustments according to new chart of accounts, balance restored.
930	84	15	903	-69	Adjustments according to new chart of accounts, balance restored.
940	241,361	241,361	904		
950	1,296,451	1,296,451	905		
960	3,938,941	3,938,941	906		
970	22,104	24,468	907	2,364	Balance restored.
980	780	831	908	51	Adjustments according to new chart of accounts, balance restored.
993		12,477	909	12,477	New analytical calculations introduced

The balance sheet in order to ensure comparability of data as at the beginning of 2003 reflects brought-over balances of deferred tax assets and liabilities calculated according to time differences arisen in 2002. Also according to new guidelines of JSC Svyazinvest (the major shareholder of the Company) advance payments under equipment supply contracts were transferred to line 150 in the amount of RUR52,307 thousand and deferred expenses in respect of software purchases in the amount of RUR255,065 thousand.

Balance sheet (book value) growth by RUR12,184 thousand was due to reflection of brought-over balances of deferred tax assets and liabilities, and to detailing settlements with budget in respect of taxes and duties.

Changes in the comparable data for 2002 in the profit and loss account

Line code	Form 2, col. 3 for 2002	Form 2, col. 4 for 2003	Difference	Explanation
010	16,389,267	16,389,267		
020	-12,131,919	-12,131,919		
050	<b>4,257,348</b>	<b>4,257,348</b>		
060	2,416	2,417	1	Round-off
070	-556,538	-556,538		
080	562	562		
090	662,786	661,130	-1,656	Adjusted to VAT amount
100	-1,679,718	-1,678,237	-1,481	Adjusted to VAT amount, imputed earnings tax was transferred
120	252,970	252,967	-3	Round-off
130	-1,298,320	-1,335,709	37,389	Fines and late payments charges with respect to taxes and duties were transferred to non-sales expenses in the amount of RUR37,389
140	<b>1,641,507</b>	<b>1,603,940</b>	<b>-37,567</b>	
150	<b>-557,240</b>	<b>-766,322</b>	<b>209,082</b>	Fines and late payments charges with respect to taxes and duties were transferred to non-sales expenses in the amount of RUR37,389; tax assets and liabilities were reflected, totaling RUR246,646
151	X	-238,219	238,219	Deferred tax liabilities were reflected
152	X	-8,427	8,427	Deferred tax assets were reflected

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Line code	Form 2, col. 3 for 2002	Form 2, col. 4 for 2003	Difference	Explanation
153	-557,240	-519,676	-37,564	Reduction in the amount of fines and late payment charges
160	<b>1,084,267</b>	<b>837,618</b>	<b>-246,649</b>	Deferred tax assets and liabilities were reflected
170	88	88		
180	-55	-55		
190	<b>1,084,300</b>	<b>837,651</b>	<b>-246,649</b>	Deferred tax assets and liabilities were reflected, round-off

In the profit and loss account of the Company the column "Over the same period preceding the reporting period" comparable data on the Company revenues and expenses for 2002 are shown.

Net profit amount for 2002 in line 190 was reduced due to deferred tax liabilities by RUR238,219 thousand and deferred tax assets amounting to RUR8,427 thousand.

In June 2002 the Company underwent reorganization through merging into a core organization of a number of regional telecom operators. Legally, the reorganization was completed on November 30, 2002.

Financial statements for 2003 data for the same period of the previous year:

- in order to ensure comparability the profit and loss account of the Company contains data on the core company for 2002 and merged companies for 2002;
- in the cash flow statement for 2002 no data are shown, as the Company cannot calculate comparable data on the merged companies with sufficient credibility.

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**5. Analysis and assessment of the balance sheet structure and profit performance**

**Analysis and assessment of the balance sheet structure**

As on December 31, 2003 the balance sheet structure can be characterized by the following ratios:

	<b>31.12. 2003</b>	<b>Target*</b>
Absolute liquidity ratio	0.13	
Current liquidity	0.87	1 – 1,5
Ratio of sufficiency of the own current assets	-0.15	> 0.1
Sales margin	25.09	

\*) Target value shows satisfactory balance sheet structure.

For reference:

**Absolute liquidity ratio** is the ratio of the sum of short-term financial investments (form 1, line 250) and cash (form 1, line 260) to short-term accounts payable (form 1, lines 610, 620)

**Current liquidity ratio** characterizes general sufficiency of current assets for doing business and timely meeting current obligations. It is the ratio of current assets (form 1, line 290) less long-term accounts receivable (form 1, line 230) to short-term accounts payables (form 1, line 610).

**Ratio of sufficiency of the own current assets** characterized availability of the Company own funds required for financial stability. It is the ratio of current assets (form 1, line 290) less long-term accounts receivables (form 1, line 230) and short-term accounts payable (form 1, lines 610, 620) to current assets (form 1, line 290) less long-term accounts receivables (form 1, line 230).

**Sales margin** is calculated as ratio of profit from sales (form 2, line 050) to revenues (form 2, line 010).

Stiff competition on telecommunications market leads to necessity of fund raising to finance modernization of existing networks. However, effective pricing arrangements and industry regulations curtail the Company ability to generate necessary cash flow, while access of the Company to external financial resources is limited. That is why the situation with maintaining liquidity and availability of current capital is uncertain at the moment, resulting in remaining situation when short-term liabilities (RUR8,302,214 thousand) exceed current assets (RUR8,302,214 thousand) by RUR2,452,224 thousand as on December 31, 2003.

In 2003 the Company managed to restructure its debt obligations. The share of long-terms borrowings increased in 2003. By the year end, the lack of current capital was cut by RUR90,183 thousand.

Moreover, the Company management managed to postpone due payment dates for some current transactions, and the management expect this opportunity will open in future if the Company current capital is enough to cover all current costs and expenses.

The Company intends to continue searching for additional financing sources, but the management cannot guarantee that such long-term financing could be secured in future on commercially acceptable terms reflected the long-term nature of the investments. In future the Company might resort to financing denominated in foreign currency in limited amounts.

In 2004 the Company expects to make use of the following financing sources:

- 1) long-term bond issue;
- 3) cash on bank accounts of the Company;

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- 4) cash flow from ordinary activities;
- 5) lower interest rates on using raised funds;
- 6) short-term financing provided by Russian credit organizations;
- 7) long-term supplier credits provided by suppliers of equipment;
- 8) leasing agreements.

The Company management believes that in future cash flow generated by ordinary activities will be sufficient to finance current and investment activities. Thus, the attached financial statements are not adjusted on possible influence of the mentioned uncertainty factors.

**Profit performance in 2003**

Activity type	Revenues (form 2, line 010)		Costs and expenses (form 2, line 020)		Profit (form 2, line 050)		Change, Δ, %
	2003	2002	2003	2002	2003	2002	
Provision of telecom services	20,564,872	16,016,251	15,414,947	11,887,067	5,149,925	4,129,185	24.72 %
Other	325,135	373,016	233,606	244,852	91,530	128,163	- 28.58 %
<b>TOTAL:</b>	<b>20,890,007</b>	<b>16,389,267</b>	<b>15,648,552</b>	<b>12,131,919</b>	<b>5,241,455</b>	<b>4,257,348</b>	<b>23.12 %</b>

Results of 2003 show significant growth of profit from rendering telecommunications services due primarily to increase of rates for provision of local services, increase in sales volumes, taking measures to cut non-production costs, streamlining the Company organizational structure, and as consequence ensuring substantial reduction in cost growth rates as compared to those of revenues. Costs grew due to rising utilities costs, power supply and changes in settlement scheme with Rostelecom.

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**6. Notes to significant balance sheet items**

**6.1. Fixed assets (item 120 of the balance sheet)**

As on January 1, 2003 the Company did not revalue its fixed assets.

Changes in the fixed asset original value in 2003:

	<b>RUR in thousands</b>
Growth of fixed asset value, total:	6,691,004
including due to:	
new asset acquisitions	2,077,533
construction of new facilities	3,617,008
modernization and refurbishment of facilities in service (additional construction, further installations)	813,684
free of charge receipt	96,569
Decrease (retire) in the fixed asset value, total	(246,690)
including due to:	
sale of fixed assets	(20,728)
written off fixed assets	(137,999)
reconstruction (partial liquidation) of fixed assets	(20,109)
<b>Total change of the original value of fixed assets</b>	<b>6,444,314</b>

The bulk of the increase in the fixed assets value is attributed to newly acquired items (property for production purposes) – 31%, newly constructed sites (buildings, lines): 54%.

Changes in fixed assets depreciation in 2003:

<b>Changes in depreciation, total</b>	<b>(1,708,868)</b>
including due to:	
accrued depreciation over the period	(1,890,768)
depreciation of realized items	15,227
depreciation of written off items	139,367
depreciation of items retired on other reasons	26,890
depreciation of items transferred free of charge	416

**Fixed assets received under leasing agreements**

As on December 31, 2003 the Company concluded 205 financial lease (leasing) agreements for leasing of switches and other telecommunications equipment. Leasing terms are from 12 to 60 months.

Cost of fixed assets received under leasing agreements:

	<b>As of 01.01.2003</b>	<b>As of 31.12.2003</b>
Book value of fixed assets		
- original value of fixed assets	561,976	2,185,782
- accrued depreciation of fixed assets	(2,446)	(228,034)
- fixed asset book value	559,530	1,957,748
Fixed assets on the balance sheet of the Lessor		
- contract value of the fixed assets	800,647	846,547

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Amounts of forthcoming leasing payments:

Due time	Payment amount, total	including:	
		fixed assets on the balance sheet of the Company (shown in liabilities item lines 520 and 621 of the Balance sheet)	fixed assets on the balance sheet of the Lessor (not included in liabilities)
2004	931,332	798,398	132,934
2005 - 2009	2,029,486	1,904,692	124,794
<b>TOTAL</b>	<b>2,960,818</b>	<b>2,703,089</b>	<b>257,728</b>

6.2. Capital expenditures (item 130 of the balance sheet):

	As of 01.01.2003	As of 31.12.2003
Investment in non-current assets, total:	1,758,496	2,460,686
including:		
construction, modernization, refurbishment of fixed assets by contracting external parties	1,205,250	1,464,003
construction, modernization, refurbishment of fixed assets by the Company itself	67,743	102,031
capital investments into rented fixed asset	862	893
acquisition of certain items of fixed assets	134,483	79,694
acquisition of fixed assets under leasing agreements	45,657	209,430
completed construction pending state registration certificates	272,108	589,460
Other	32,393	15,175
Equipment for installation	119,512	300,175
<b>TOTAL:</b>	<b>1,878,008</b>	<b>2,760,862,</b>

The Company carries out construction and refurbishment of 930 sites. In 2003 capital expenditures amounted to RUR7,302,777 thousand; non-current assets received free of charge were valued at RUR71,684 thousand, value of assets accepted for accounting purposes resulting from stock taking is RUR11,263 thousand, procured fixed assets valued at less than RUR10 thousand, total value is RUR141,186 thousand.

The Company in 2003 brought into service fixed assets valued at RUR6,474,261 thousand, accepted for accounting purposes assets valued at less than RUR 10 thousand, with the total value of RUR141,306 thousand, sold assets valued at RUR1,015 thousand, contributed under equity participation agreements: RUR20,497 thousand; assets transferred free of charge: RUR2 thousand; charged to losses: RUR2,112 thousand; transferred to other account: RUR1,845 thousand.

The value of non-movable assets put into service in 2003, but accounted for as construction in progress as on 31.12.2003, was RUR592,499 thousand. State registration of these assets is pending.

6.3. Financial investments (items 140 and 250 of the balance sheet)

In section 5 form 5 Supplement to the balance sheet the information on value of financial investments according to types is shown, including financial investments with values adjusted up to the current market price as of December 31, 2003.

Key investments of the Company into charter capitals of daughter, affiliated and other companies.



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<b>Organization</b>	<b>Activities</b>	<b>Investment as of 31/12/2003</b>	<b>Percentage of the charter capital, %</b>	<b>Percentage of voting shares, %</b>	<b>Book value, unaudite d by Ernst&amp; Young Vneshaudi t</b>	<b>Revenues, unaudited by Ernst&amp; Young Vneshaudi t</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
<b>Daughter companies</b>						
- VladPage LLC	paging service	41	75	75	219	506
- Vladimirski payphone LLC	local, DLL and international services	93	51	51	9,071	15,652
- MobilCom LLC	radio communications and telephone line installation	2 250	100	100	8,722	3,688
- Teleport Ivanovo LLC	cellular communications, data, trade in telecom equipment	151	100	100	2,670	4,685
- Telecom Terminal LLC	sale, after sale service, repair of terminal equipment	260	100	100	1,274	4,969

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Organization	Activities	Investment as of 31/12/2003	Percentage of the charter capital, %	Percenta ge of voting shares, %	Book value	Revenues
1	2	3	4	5	6	7
- TelecomSroy LLC	general construction, public catering	510	100	100	4,199	13,205
- Private JSC Telecom of the Ryazan region	deployment of modern telecommunications network	486	51	51	33,851	25,572
- Svyaz-Service-Irga LLC	repair and maintenance of telecommunications equipment	16	70	70	298	1,423
CenterTelecomService of the Moscow region	Telecommunications services	87,354	51	51	39,010	64,153
- Private JSC Vladimir Teleservice	Telecommunications services	11	50	50	7,351	13,238
- Private JSC TeleRossVoronezh	Telecommunications services	585	50	50	9,941	15,177
- Private JSC Svyazproekt ongoing wind up		4	53	53	---	---
- Private JSC CenterTelecomService		75	75	75	5,243	6,284
- Private JSC Cellular Communications of Black Soil area (Chernozemie)	cellular NMT-450 MHz communications	31	45	60	32,509	41,325
Provisions for devaluation		732				
<b>TOTAL:</b>	<b>X</b>	<b>91,135</b>	<b>X</b>	<b>X</b>		
<b>Affiliated companies</b>						
- Private JSC Belgorodskaya Cellular Communications	cellular communications AMPS-800 MHz	1,749	30	30	65,736	6,545
- Private JSC Bryanskies Cellular Communications	cellular communications NMT-450 MHz	276	34	34	18,233	9,440
- Trunksvyaz LLC	mobile radio telephone communications	25	25	25	479	278

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Organization	Activities	Investment as of 31/12/2003	Percentage of the charter capital, %	Percentage of voting shares, %	Book value	Revenues
1	2	3	4	5	6	7
JSC Gasenergobank	banking services	6,820	25	26	449,069	46,310
- Private JSC Kaluzhskaya Cellular Communications	cellular communications	8	42	42	16,498	12,778
- Rating LLC	radio broadcasting, on-air and cable TV	37	29	29	208	823
- Private JSC Ryazanskaya Cellular Communications	cellular communications NMT-450 MHz	12	40	40	10,409	12,264
- JSC Telecommunications Company Rinfotels	data services	25	26	26	6,263	8,852
- Private JSC Smolenskaya Cellular Communications	cellular communications AMPS-800 MHz	2,349	40	40	84,996	10,100
- Tvertelecom LLC	development of telecommunications networks	50	26	26	39,816	42,782
- Private JSC Tverskaya Cellular Communications	cellular communications NMT-450 MHz	12	40	40	16,843	17,362
- Radiopaging Incorporated Company Private Company (wind up ongoing)	data services	148	30	30	---	---
<b>Provisions for devaluation</b>		<b>191</b>				
<b>TOTAL:</b>	<b>X</b>	<b>11,319</b>	<b>X</b>	<b>X</b>	<b>RUR in thousands</b>	
<b>Other organizations:</b>	<b>X</b>	<b>10,436</b>	<b>X</b>	<b>X</b>	<b>RUR in thousands</b>	
<b>Provisions for devaluation</b>	<b>X</b>	<b>2,359</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
<b>GRAND TOTAL:</b> (sum of lines 141, 142, 143 of the balance sheet)	<b>X</b>	<b>110,531</b>	<b>X</b>	<b>X</b>	<b>RUR in thousands</b>	

Pursuant to a decision of the Board of Directors of the Company on participation in setting up of a daughter company (Minutes # 21 of January 17, 2003) the Company in March 2003 acquired 75%

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of the Charter Capital of Private JSC CenterTelecomService (749 ordinary shares) for RUR74.9 thousand. An entry in the register of shareholders confirming record of securities into the owner's account was made in July 2003.

As at the end of the reporting year the original value of the financial investments in the shares of companies was increased up to the current market price by RUR3,453 thousand, including by RUR3,326 thousand in shares of JSC Saving Bank of the RF, and by RUR127 thousand in shares of OJSC Rostelecom.

Income received as dividends from long-term financial investments is shown in item Income from participation in other organizations of the profit and loss account in the amount of RUR528 thousand) (RUR562 thousand in 2002).

Plans provided by the Company as on December 31, 2003:

<b>Borrower</b>	<b>Facility amount</b>	<b>Maturity</b>	<b>Interest rate (p.a.)</b>
<b>Long-term loans</b>			
- Private JSC Krestyanin	250	01.02.06	
- SC Spartak LLC	894	01.02.06	25%
- Center Broker Leasing LLC	1,520	31.05.05	25%
Provisions for devaluation	205		
<b>Total:</b>	<b>2,459</b>		
<b>Short-term loans</b>			
- Private JSC Tverskoy Payphone	791	31.12.01	25%
- Private JSC Krestyanin	200	26.03.02	
- Private JSC Krestyanin	209	01.11.02	
- Skat-69 LLC	50	01.12.00	
<b>Total:</b>	<b>1,250</b>		
<b>GRAND TOTAL:</b>	<b>3,709</b>		

Other financial investments are bills of exchange totaling RUR163 thousand, and contributions under ordinary partnership agreement amounted to RUR6,710 thousand.

Provisions for devaluation of other financial investments were not allocated due to instability of these investments.

The total amount of provisions for devaluation of the financials of the Company as on December 31, 2003 totaled RUR3,486 thousand.

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6.4. Deferred tax assets (item 145 of the balance sheet)

Flow of deferred tax assets in 2003:

Brought-over balance as on 01.01.2003	12,941
Increase in the reporting period due to time differences (to be deducted)	4,247
Repaid to reduce tax payments	(5,661)
Written off due to retirement of items for which assets were allocated	
<b>Balance on 31.12.2003</b>	<b>11,527</b>

The Company identified through calculations deferred tax assets as on January 1, 2003 in the amount of RUR12,941 thousand on time differences arisen before January 1, 2003 in order to bring the data as at the year start to values comparable with those at the end of 2003.

The differences led to recognition of deferred tax assets are described in Par. 7.6.

6.5. Other non-current assets (item 150 of the balance sheet):

	<b>As on 01.01.2003</b>	<b>As on 31.12.2003</b>
Advance payments made in respect of acquisition and creation of non-current assets	255,109	655,699
Deferred assets for purchases of software and databases	50,561	986,804
Other non-current assets	1,701	
<b>TOTAL:</b>	<b>307,372</b>	<b>1,642,503</b>

Pursuant to a decision of the Management Board of JSC Svyazinvest # 10 of 14.04.2003 regarding implementation of Enterprise Resource Planning System (ERP) in the companies included in the holding, the Company's Board of Directors on 28.05.2003 (Minutes # 10) approved the decision on expediency of implementation of ERP based on the software Oracle E-Business Suite and approve supply contract for delivery of Oracle E-Business Suite software with Private JSC Open Technologies 98, valued at USD36,387,256.64 million.

According to the supply contract among other applications the Company purchased 18,049 licenses for E-Business Suite Professional for nonexclusive right for use of the software suite.

The Company plans to complete the installation of the system in 2007.

Deferred expenses for purchase of software and databases reflect the Company expenses as on 31.12.2003 to purchase enterprise resource planning software of Oracle's E-Business Suite totaled RUR919,517 thousand (as on 01.01.2003 no expenses were incurred).

6.6. Inventories

Structure of raw and other materials and other tangible items (line 211 of the balance sheet)

	<b>As on January 1, 2003</b>	<b>As on December 31, 2003</b>
Cable	136,021	156,190

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Fuel	7,361	9,576
Spares	76,743	99,325
Materials, transferred to third parties for processing	1,274	1,677
Construction materials	39,946	45,132
Tools and appliances	53,744	74,531
Other materials	170,492	213,917
<b>TOTAL:</b>	<b>485,581</b>	<b>600,348</b>

Significant growth in inventories as on December 31, 2003 was due to procurement of materials for construction of sites.

**6.7. VAT on purchased items (item 200 of the balance sheet)**

Significant increase of VAT by RUR687,438 thousand as on December 31, 2003 was due to growing VAT on capital construction, leasing of equipment, and unrecovered VAT for completed construction sites pending state registration.

**6.8. Short-term accounts receivable due from purchasers and customers as on 31.12 2003 (item 241 of the balance sheet):**

	<b>Total indebtedness</b>	<b>Doubtful debt provisions</b>	<b>Indebtedness less doubtful debt provisions</b>
<b>As on January 1, 2003</b>			
Account settlement with individuals (in respect of telecom services)	627,142	(52,257)	574,885
Settlements in respect of recovery of costs for provision of benefits to certain eligible customers	595,270	(368,831)	226,439
Settlements with budget funded organizations with respect of telecommunications services	155,996	(57,029)	98,967
Settlements with organizations not funded from budget with respect of telecommunications services (excluding operators)	357,154	(64,464)	292,690
Account settlements with operators for telecommunications services	33,580	0	33,580
Account settlements with purchasers and customers for non-core activities	34,419	(14,094)	20,325
Settlements for realized assets	5,250	0	5,250
Settlements with purchaser for civil defense	7,194	0	7,194
<b>TOTAL on 01.01.2003</b>	<b>1,816,005</b>	<b>(556,675)</b>	<b>1,259,330</b>
	<b>Total indebtedness</b>	<b>Doubtful debt provisions</b>	<b>Indebtedness less doubtful debt provisions</b>
<b>As on a 31.12.2003</b>			

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Account settlement with individuals (in respect of telecom services)	856,380	(65,176)	791,204
Settlements in respect of recovery of costs for provision of benefits to certain eligible customers	1,176,384	(777,022)	399,362
Settlements with budget funded organizations with respect of telecommunications services	189,199	(55,111)	134,088
Settlements with organizations not funded from budget with respect of telecommunications services (excluding operators)	368,590	(51,198)	317,392
Account settlements with operators for telecommunications services	65,690	(7,786)	57,904
Account settlements with purchasers and customers for non-core activities	37,836	(16,874)	20,962
Realized assets settlements	6,321	0	6,321
Settlements with purchaser for civil defense	5,216	0	5,216
<b>TOTAL as on 31.12.2003</b>	<b>2,705,616</b>	<b>(973,167)</b>	<b>1,732,449</b>

6.9. Other accounts receivable with payments expected within 12 months from the reporting date (lines 240-241-242 of the balance sheet)

	<b>As on January 1, 2003</b>	<b>As on December 31, 2003</b>
<b>PAYMENTS WITH RESPECT OF TAXES AND DUTIES</b>	118,410	246,450
Social insurance and social care payments	14,986	12,172
Payroll costs	345	409
Settlements with advance holders	1,015	1,494
Settlements with employees for other transactions	12,844	7,640
Settlements with various debtors:	166,103	145,658
- property and personal insurance	42,705	895
- claims settlements	10,050	14,663
- income due	669	2,481
- other settlements with daughter and affiliated companies	6,199	12,993
- other	106,480	114,626
<b>TOTAL:</b>	<b>313,703</b>	<b>413,823</b>

Significant growth in accounts receivable in respect of taxes and duties payments was due to advance payments of profit tax totaling RUR237,940 thousand.

6.10. Cash and equivalents (line 260 of the balance sheet)

As on December 31, 2003 a significant growth of Cash item of the balance sheet by RUR726,279 thousand was registered due to raising funds in the form of credit facilities and accumulated cash funds to repay accounts payable in the 1Q2004.

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6.11. Charter (authorized) capital (item 410 of the balance sheet)

The charter capital is RUR631,200 thousand divided into 1,578,006,833 ordinary and 525,992,822 preference shares with the nominal value of RUR0.3 each.

Shareholder	Ordinary shares		Preference shares		Nominal value of the placed (outstanding) shares
	Number of shares	Nominal value	Number of shares	Nominal value	
<b>Legal entities, total</b>	<b>1,456,315,603</b>	<b>436,894,680.9</b>	<b>426,359,901</b>	<b>127,907,970.3</b>	<b>564,802,651.2</b>
including:					
- JSC Svyazinvest	799,867,813	239,960,343.9			239,960,343.9
- Daughter and affiliated companies	392,616	117,784.8			117,784.8
of which					
- JSC TC Rinfotels	22,909	6,872.7			6,872.7
- TverTelecom LLC	369,707	110,912.1			110,912.1
<b>- Registered entities holding of 1 percent of the Charter capital, total</b>	<b>601,025,901</b>	<b>180,307,770.3</b>	<b>392,964,300</b>	<b>117,889,290</b>	<b>298,197,060.3</b>
of which					
- Private JSC Depositary Clearing Company (nominal holder)	126,621,129	37,986,338.7	89,084,271	26,725,281.3	64,711,620.0
- Private JSC Brunswick UBS Warburg Nominees (nominal holder)	89,865,079	26,959,523.7	115,816,993	34,745,097.9	61,704,621.6
- Private JSC ABN AMRO Bank AO (nominal holder)	51,094,753	15,328,425.9	117,324,922	35,197,476.6	50,525,902.5
- Russian Federal Property Fund	151,356,274	45,406,882.2			45,406,882.2
- ING Bank Eurasia ZAO (nominal holder)	79,790,729	23,937,218.2	18,435,620	5,530,686.0	29,467,904.7
- Lindsell Enterprises Limited	49,065,707	14,719,712.1	36,037,268	10,811,180.4	25,530,892.5
- Join-Stock commercial bank Promsvyazbank (nominal holder)	29,022,992	8,706,897.6	12,611,951	3,783,585.3	12,490,482.9
- Pruett Enterprises Limited	24,209,238	7,262,771.4	3,653,275	1,095,982.5	8,358,753.9
- other legal entities, total	55,029,273	16,508,781.9	33,395,601	10,018,680.3	26,526,462.2



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Shareholder	Ordinary shares		Preference shares		Nominal value of the placed (outstanding) shares
	Number of shares	Nominal value	Number of shares	Nominal value	
<b>Individuals (natural persons), total:</b>	<b>121,691,230</b>	<b>36,507,369</b>	<b>99,632,921</b>	<b>29,889,876.3</b>	<b>66,397,245.3</b>
- the Company's employees	24,525,456	7,357,636.8	21,217,866	6,365,359.8	13,722,996.6
- other	97,165,774	29,149,732.2	78,415,055	23,524,516.5	52,674,248.7
<b>TOTAL:</b>	<b>1,578,006,833</b>	<b>473,402,049.9</b>	<b>525,992,822</b>	<b>157,797,846.6</b>	<b>631,199,896.5</b>

As on December 31, 2002 and 2003 the Charter capital of the Company was paid-up in full.

Preference share do not carry voting rights; they cannot be converted into ordinary shares, annual income of at least 10 percent of the net profit according to financial statements is payable on preference shares.

As on December 31, 2002 and 2003 the Company had no repurchased shares reflected on the balance sheet.

#### 6.12. Distribution of profit

Planned distribution of 2003 profit to be approved at the annual general meeting of shareholders of the Company scheduled for June 2004:

	<b>Amount</b>
<b>Capital before distribution of the reporting year profit</b>	
Charter capital	631,200
Reserves	31,560
Additional capital	6,332,963
Profit of previous years	6,567,747
Reporting year profit	1,502,563
<b>Total capital before profit distribution:</b>	<b>15,066,033</b>
<b>Allocations of the reporting year profit</b>	
Allocations to reserves	(0)
Allocations to finance employee stockownership plan (if provided for by founding documents)	(0)
Dividend payments	(347,297)
<b>Total distributed profit of the reporting year</b>	<b>(347,297)</b>
<b>Capital after profit distribution</b>	
Charter capital	631,200
Reserves	31,560
Additional capital	6,332,963
Profit of previous years	7,723,013
<b>Total capital after profit distribution:</b>	<b>14,718,736</b>
<b>decrease of capital after distribution of the reporting year profit</b>	<b>(347,297)</b>
<b>Increase (decrease) of capital in the part of undistributed profit of the reporting year</b>	<b>1,155,266</b>

#### 6.13. Dividend

In 2003 according to a decision of the annual general meeting of shareholders (minutes # 11 of June 24, 2003) dividend payments for the year ended December 31, 2002 were declared in the amount of RUR0.096052 per ordinary share and RUR0.206143 per preference share. The payable dividend amount was RUR260,000 thousand.

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The Board of Director recommended to pay dividend for 2002 as follows:

Type of shares	Number of shares	Dividend per share, RUR	Total dividend, RUR
Preference class A	525,992,822	0.206143	108,430,000
Ordinary	1,578,006,833	0.096052	151,570,000
<b>TOTAL</b>	<b>2,103,999,655</b>		<b>260,000,000</b>

The attached financial statements do not reflect dividends for 2003. These will be shown as allocations of undistributed profit during the year ending December 31, 2004 subject to approval at the annual general meeting of shareholders of the Company.

6.14. Credits and loans (lines 510 and 610 of the balance sheet):

	Long-term		Short-term	
	01.01.2003	31.12.2003	01.01.2003	31.12.2003
<b>Credits, total:</b>	<b>981,013</b>	<b>3,963,900</b>	<b>1,654,894</b>	<b>3,283,624</b>
including:				
- JSC Vneshtorgbank	357,260	366,405	139,354	511,447
- Vnesheconombank	199,478	169,999	6,331	539,490
- Private JSC ACB Promsvyazbank			233,510	575,371
- Private JSC CB GUTA-BANK	227,882	620,657	210,063	255,730
- ACB Crosna-Bank			15,670	44,521
- Middle Russia Saving Bank of RF	149,636	2,782,962	502,635	580,644
- JSC CB Bryanski Narodny Bank			20,000	20,000
- ACB MIB			31,693	38,907
- FACB Voznesenski				5,000
- JSC IMPEXBANK			30,000	69,405
- Private JSC SB Gasprombank				4,000
- JSC Investment Bank Trust				502,411
- Private JSC Severny bank RF			51,900	23,039
- Private JSC Raiffeisenbank	25,706	16,302		
- JSC CIB Euroalliance				2,945
- CB Ogni Moskvyy				40,714
- Main Financial department of the Vladimir region		7,575		
- JSC Uralsib			53,000	70,000
- other	21,051		360,738	
<b>Loans of organizations which are not members of the Group</b>	<b>332,719</b>	<b>103,247</b>	<b>81,581</b>	<b>4,490</b>
including:				
- Bills of exchange center-service				2,490
- JSC Promtekhmontazh			2,500	2,000
- Individuals	117,547	103,247	2,054	
- Vnesheconombank	107,476		21,974	
- LG Electronics	31,317			
- Ericsson			5,983	
- Alcatel			6,388	
- other	76,379		42,682	
<b>Loans of organizations-members of the Group</b>	<b>30,729</b>	<b>29,000</b>	<b>25,594</b>	<b>1,362</b>

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including				
- JSC Svyazinvest	30,729	29,000	25,594	1,362
<b>Bonds issued</b>	<b>600,000</b>	<b>2,631,012</b>	<b>636,184</b>	<b>93,052</b>
<b>Bills of exchange issued (Private JSC RTC-Invest, JSC Vneshtorgbank)</b>				<b>606,082</b>
<b>TOTAL:</b>	<b>1,944,461</b>	<b>6,727,159</b>	<b>2,398,253</b>	<b>3,988,610</b>

In September 20003 the Company registered a bond issue of 2,000,000 documented interest bearing bearer bonds series 03, with par value of RUR1,000. Each bond carries 6 coupons. Payments of first coupon are made on the 183<sup>rd</sup> day from the bond placement start, the second coupon shall be paid on the 366 day, the third coupon – on the 549 day, the fourth coupon payments – on the 731 day, the fifth coupon – on the 913 day, the sixth coupon – on the 1095 day from the bond placement start. The interest rate carried by the coupons was defined at 12.35 percent p.a. The bonds are to be redeemed in September 2006, 1,095 days from the bond placement.

In November and December 2003 in order to raise debt financing the Company issued bills of exchange valued at RUR529,513 thousand. The amount of discount of the bill placement totaled RUR76,569 thousand. The bills of exchange shall be redeemed in November and December 2004.

In November 2003 the Company redeemed 600,000 documented interest bearing bearer bonds series 01 with nominal value of RUR1,000 each.

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In 2003 the Company concluded a number of credit agreements. The most significant ones (credit facility amount at least RUR400,000 thousand) are listed below.

*thousand units*

#	Execution date	Lender	Credit amount	Currency	Maturity date	Interest rate, p.a.	Security	Security value
1	01.04.03	ACB Promsvyazbank (Private JSC)	400,000	RUR	09.04.04	18	telecommunications equipment	590,087
2	15.08.03	Investment Bank Trust JSC	500,000	RUR	14.08.04	16	unsecured	
3	26.09.03	GUTA-Bank	450,000	RUR	25.09.05	15	unsecured	
4	18.11.03	Middle Russia bank of Saving Bank of RF	70,000	RUR	16.11.04	13,5	telecommunications equipment	82,210
5	21.11.03	Middle Russia bank of Saving Bank of RF	70,000	RUR	19.11.04	13,5	telecommunications equipment	79,593
6	07.08.03	Middle Russia bank of Saving Bank of RF	50,000	RUR	04.02.05	14	telecommunications equipment	58,496
7	07.08.03	Middle Russia bank of Saving Bank of RF	50,000	RUR	04.02.05	14	telecommunications equipment	57,099
8	11.08.03	Middle Russia bank of Saving Bank of RF	50,000	RUR	07.02.05	14	telecommunications equipment	58,040
9	11.08.03	Middle Russia bank of Saving Bank of RF	50,000	RUR	07.02.05	14	telecommunications equipment	57,029
10	11.08.03	Middle Russia bank of Saving Bank of RF	60,000	RUR	07.02.05	14	telecommunications equipment	69,667
11	29.08.03	Middle Russia bank of Saving Bank of RF	150,000	RUR	22.02.05	14	telecommunications equipment	172,116
12	22.10.03	Middle Russia bank of Saving Bank of RF	80,000	RUR	22.02.05	14	telecommunications equipment	91,284
13	22.10.03	Middle Russia bank of Saving Bank of RF	80,000	RUR	22.02.05	14	telecommunications equipment	91,426
14	28.10.03	Middle Russia bank of Saving Bank of RF	35,000	RUR	22.02.05	14	telecommunications equipment	39,674
15	11.11.03	Middle Russia bank of Saving Bank of RF	90,000	RUR	22.02.05	14	telecommunications equipment	100,848

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#	Execution date	Lender	Credit amount	Currency	Maturity date	Interest rate, p.a.	Security	Security value
16.	11.11.03	Middle Russia bank of Saving Bank of RF	90,000	RUR	22.02.05	14	telecommunications equipment	100,918
17.	11.11.03	Middle Russia bank of Saving Bank of RF	90,000	RUR	22.02.05	14	telecommunications equipment	100,961
18.	05.12.03	Middle Russia bank of Saving Bank of RF	85,000	RUR	06.06.05	14	telecommunications equipment	98,296
19.	05.12.03	Middle Russia bank of Saving Bank of RF	85,000	RUR	22.05.05	14	telecommunications equipment	97,853
20.	05.12.03	Middle Russia bank of Saving Bank of RF	85,000	RUR	12.05.05	14	telecommunications equipment	117,694
21.	09.12.03	Middle Russia bank of Saving Bank of RF	85,000	RUR	16.05.05	14	telecommunications equipment	97,007
22.	09.12.03	Middle Russia bank of Saving Bank of RF	85,000	RUR	06.05.05	14	telecommunications equipment	97,025
23.	09.12.03	Middle Russia bank of Saving Bank of RF	75,000	RUR	21.04.05	14	telecommunications equipment	87,270
24.	18.12.03	Middle Russia bank of Saving Bank of RF	418,000	RUR	04.12.08	14,5	telecommunications equipment	488,154
25.	24.12.03	Middle Russia bank of Saving Bank of RF	498,000	RUR	04.12.08	14,5	telecommunications equipment	573,655
26.	26.12.03	Middle Russia bank of Saving Bank of RF	412,000	RUR	04.12.08	14,5	telecommunications equipment	476,208

In 1995-1997 the Ministry of Finance of the Russian Federation granted the Company long-term financing for the purpose of telecommunications equipment purchasing from overseas suppliers. Vnesheconombank was the crediting agent under the financing scheme.

As on December 31, 2002 the Company's outstanding obligations toward Vnesheconombank denominated in foreign currency totaled Euro10,148,255. The obligations are reflected as liabilities in the financial statements of the Company (lines 511, 512, 612, 520, 621 of the balance sheet) in the amount of RUR145,299 thousand.

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These obligations shall be met (repaid) by the Company in foreign currency or Russian roubles at exchange rate as on the payment date depending on terms and conditions of the debt instruments; and at the Company's discretion if such selection of repayment currency is stipulated by relevant debt instrument. The Company intends to repay all debt in RUR. The amount of this debt translated into RUR at the CB exchange rate effective on December 31, 2002 (the reporting date) totaled RUR336,007 thousand.

During 2003 the Company reposted its debt to Vnesheconombank expressed in conditional units, transferring it from lines 512, 612, 520 of the balance sheet to lines 511, 611, 626 of the balance sheet.

As on December 31, 2003 the Company's obligations to Vnesheconombank expressed in conditional units totaled Euro13,775 thousand. These liabilities are shown in the financial statements of the Company in lines 511, 611, 626 of the balance sheet in the amount of RUR260,283 thousand.

These obligations shall be met (repaid) by the Company in foreign currency or Russian roubles at exchange rate as on the payment date depending on terms and conditions of the debt instruments; and at the Company's discretion if such selection of repayment currency is stipulated by relevant debt instrument. The Company intends to repay all debt in RUR. The amount of this debt translated into RUR at the CB exchange rate effective on December 31, 2003 (the reporting date) totaled RUR507 262 thousand.

The schedule of repayment of long-terms loans and credits as on December 31, 2003:

	<b>Repayment amount</b>	
	<b>as on 01.01.2003</b>	<b>as on 31.12.2003</b>
In 2005	1,616,707	3,124,612
In 2006	184,279	2,137,375
In 2007	143,475	20,006
In 2008		1,330,516
Beyond 2008		114,650
<b>TOTAL</b>	<b>1,944,461</b>	<b>6,727,159</b>

The Company expenses related to receiving and using credits and loans are charged to:

	<b>2003</b>	<b>2002</b>
- operating expenses	878,460	556,538
- investment asset values	121,500	81,776
<b>TOTAL</b>	<b>999,960</b>	<b>638,314</b>

**6.15. Deferred tax liabilities (item 515 of the balance sheet)**

Flow of deferred tax liabilities in 2003:

Brought-over balance as on 01.1.2003	238,219
Created in the reporting period on taxable time difference	119,597
Repaid in respect of the increase of tax payments	(387)
Written off due to retirement of assets for which these liabilities were created	468
<b>Balance as on 31.12.2003</b>	<b>357,897</b>

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The Company identified through calculations deferred tax liabilities as on January 1, 2003 in the amount of RUR238,219 thousand on time differences arisen before January 1, 2003 in order to bring the data as at the year start to values comparable with those at the end of 2003.

The differences led to recognition of deferred tax liabilities are described in Par. 7.6.

6.16. Other long-term liabilities (item 520 of the balance sheet)

	As on January 1, 2003	As on December 31, 2003
Account settlements with suppliers and contractors	1,280,171	2,179,067
Long-term part of debt on tax and duties payment	43,186	42,036
<b>TOTAL</b>	<b>1,323,357</b>	<b>2,221,103</b>

As compared to the previous year long-term liabilities grew by RUR897,746 thousand; this is mainly due to more executed leasing contracts, as according to their terms and conditions equipment (property) shall be recognized on the balance sheet of the Lessee.

Account settlements with suppliers and contractors identifying major creditors (over RUR4,000 thousand) are shown below:

Creditor	Liabilities as on 01.01.2003	Liabilities as on 31.12.2003
Iskratel	95,297	39,414
Alcatel	176,843	8,365
Iskrauraltel	10,143	
Mashpriborintorg	151,934	134,106
JSC RTC-Leasing	283,013	1,850,124
Siemens	68,602	15,060
Vnesheconombank	36,361	
Vado-Telecom	34,019	13,995
Technoserv		18,239
Promsvyazleasing		76,627
Private JSC RusLeasingSvyaz		5,210
Other	423,959	17,927
<b>TOTAL</b>	<b>1,280,171</b>	<b>2,179,067</b>

As on December 31, 2003 the Company restructured its accounts payable due to the budget in respect of tax on the principal in the amount of RUR14,122 thousand and in respect of fines and late payment charges in the amount of RUR27,914 thousand.

6.17. Accounts payable

Settlements of accounts with suppliers and contractors (item 621 of the balance sheet)

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Major creditors (over RUR500 thousand) on supplier credits and leasing are shown below:

<b>Creditor</b>	<b>Debt as on 31.12.2003</b>
Iskratel	199,084
Alcatel	22,524
Vado-Telecom	7,730
Ericsson	737
LG Electronics	31,317
Siemens AG	29,269
Italtel	39,071
Center for Economic Development	8,203
Private JSC BTO Huawei	7,208
Private JSC Sokol-ATS	32,084
Kvantintercom	20,719
UP MPOVT Minsk	575
JSC RTC-Leasing	666,295
Promsvyazleasing	87,006
Private JSC RusLeasingSvyaz	13,051
Other	896,492
<b>TOTAL</b>	<b>2,061,365</b>

Settlements with budget in respect of taxes and duties (item 625 of the balance sheet):

	<b>As on January 1, 2003</b>	<b>As on December 31, 2003</b>
VAT settlements	172,083	207,473
Profit tax settlements	122,828	134,664
Natural person income tax	29,594	35,077
Property tax	73,441	95,475
transportation tax	0	707
Land tax	541	451
Unified imputed income tax	0	98
Sales tax	34,948	42,312
Other taxes and duties	6,482	2,982
<b>TOTAL</b>	<b>439,917</b>	<b>519,239</b>

**Other accounts payable (item 626 of the balance sheet):**

	<b>As on January 1, 2003</b>	<b>As on December 31, 2003</b>
Settlements with advance holders	583	661
Settlements with employees on other transactions	225	373
Settlements with various creditors, including:	392,964	603,478
in respect of deposited funds	7,684	5,577
deferred tax (VAT and sales tax)	275,627	411,521
property and personal insurance	2,219	2,225



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claims settlements	29	18,208
other	107,405	165,947
<b>TOTAL</b>	<b>393,772</b>	<b>604,512</b>

As compared to 2002, accounts payable grew by RUR210,740 thousand, primarily due to growing overdue amounts of deferred VAT.

6.18. Deferred revenues (item 640 of the balance sheet)

	<b>As on January 1, 2003</b>	<b>As on December 31, 2003</b>
Budgetary funds for special purposes financing, total: including	3,087	9,455
- civil defense	91	167
- budgetary funds in cash for other purposes	2,996	9,288
Special purpose financing (except budgetary funds)	21,750	6,682
Deferred revenues, total: including:	366,434	448,361
- assets received free of charge	198,428	280,963
- special purpose financing	125,140	139,004
- other deferred revenues	42,866	28,394
<b>TOTAL</b>	<b>391 271</b>	<b>464 498</b>

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**7. Notes to significant items of the profit and loss account**

**7.1. Revenues from ordinary activities**

Revenues from sales of products, goods, rendering services and carrying out of works less VAT and sales tax:

	<b>2003</b>	<b>2002</b>
Domestic long-distance and international telephone service	8,799,921	7,554,665
Urban and rural telephone service	8,729,272	6,695,075
Radio communications, radio broadcasting, TV, satellite communications	29,997	19,747
Wireline broadcasting	513,592	466,524
Wireless communications	353,047	351,960
Document transmission	295,228	269,705
Revenues from new telecom services	557,835	379,996
Revenues from telecom operators	1,258,352	247,167
Other telecom services (core business activities)	27,628	59,034
Revenues from other realizations (non-core activities)	325,135	345,394
<b>TOTAL</b>	<b>20,890,007</b>	<b>16,389,267</b>

Revenues from telecom services grew by RUR4,521 million due to growing sales of basic services and price increases.

Local telephone rates were raised twice (from May 15 and August 1, 2003) ensuring growing revenues from local telephone service. Other revenue growth was secured through increase in sales.

Adoption of unified (inside the Company service area and single tariff band) international telephone rates from May 15, 2003, and higher domestic long-distance telephone rates resulted in additional growth of revenues from domestic long-distance and international telephone service.

Revenue growth from new services was mainly ensured by increased sales, primarily Internet access service.

In 2003 the Ministry for Antimonopoly policies and support of entrepreneurship (MAP) carried out a reform of interconnection settlement fees between MultiRegional Companies and OJSC Rostelecom for long-distance traffic. Before August 2003 the Company had paid to OJSC Rostelecom an integrated rate per minute on 50 km distance along Rostelecom's network.

The integral settlement rate contained a linear component of OJSC Rostelecom and a difference of average weighted terminal (incoming and outgoing) accounting rates of regional carriers for domestic-long distance traffic. The rate was calculated and approved by MAP once a year according to traffic volume data for the past year and did not reflect actual economic benefits and costs related to changing structure of incoming and outgoing traffic in the accounting periods.

In August 2003 new transparent and rational arrangements of inter-operator settlement for long-distance traffic were introduced. The newly adopted system of interconnection fees separates operator's payments to OJSC Rostelecom for carrying long-distance traffic and termination fees to far end operator. This enabled the Company to derive revenues from terminating incoming traffic on its network depending on actual traffic volumes in the period resulting in growth of revenues by

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RUR478,182 thousand. Expenses of the Company with respect of settlements with Rostelecom for carrying long-distance traffic due to changes in interconnection payment arrangements grew by RUR544,100 thousand.

**Merchandise exchange (barter transactions)**

In 2002 and 2003 a part of the Company revenues from rendering services, sales of goods, products was received under barter conditions. These are summed up below:

	<b>2003</b>	<b>2002</b>
Total number of organizations involved in barter transactions:	1,776	2,397
Revenues from these transactions – total: including:	87,000	115,315
energy and electric power supply	13,420	5,367
construction companies	12,222	7,220
with other companies	61,358	102,728
Revenues from barter deals – as percentage to the total	0.42	0.7

The cost of services rendered, works carried out, sold goods was set by the Company on normal commercial basis.

**7.2. Ordinary activities expenses**

Expenses incurred in sales of products, goods, rendering services, carrying out works less VAT, excise duties and other mandatory payments:

	<b>2003</b>	<b>2002</b>
Payroll costs	5,167,913	4,041,131
Social insurance allocations	1,703,429	1,395,196
Fixed asset depreciation	1,669,959	1,138,809
Material costs	1,256,821	1,138,227
Electric power	308,779	271,740
Settlements for telecom operators' services	418,047	427,109
Expenses for services of Rostelecom	2,140,925	1,386,890
Services of third parties	1,452,693	773,392
Taxes and duties included in the ordinary activities expenses	60,451	208,508
Other expense	1,469,535	1,350,917
<b>TOTAL</b>	<b>15,648,552</b>	<b>12,131,919</b>

Growing payroll costs and social insurance allocations were primarily caused by indexation of the average monthly salary of the Company employees (due to inflation), and by revised minimal pay to meet the Company's obligations under the industrial tariff agreement.

Rising fixed asset depreciation was mainly due to commissioning for service of new facilities, increased expenses for equipment received under leasing schemes (on the Lessee's balance sheet).

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Growth of material costs resulted from rising prices set by suppliers and contractors, and growing fixed assets (number of lines, etc.) to be maintained and serviced.

Growth of expenses in respect of settlements with Rostelecom was due to adoption of new arrangements for interconnection fees (detailed integrated settlement rate), rising long-distance traffic volumes.

Expenses for third party services increased due to growing expenses on the following:

- electric power, thermal energy – hike of prices charged by suppliers and growing consumption of energy;
- transportation costs – growing prices for services of forwarders, engagement of more transportation vehicles for production purposes.

**7.3 Operating income and expenses:**

Break down of operating income:

	<b>2003</b>	<b>2002</b>
Income from sale and other retirement of other assets	756,530	576,140
Income from sale and other retirement of other fixed assets	10,578	30,734
Income from joint activities	6,943	5,980
Other operating income	35,260	48,276
of which		
doubtful debt provisions	30,927	46,128
adjustment of investment value up to the market price	3,453	0
other	880	2,148
<b>TOTAL</b>	<b>809,311</b>	<b>661,130</b>

Break down of operating expenses:

	<b>2003</b>	<b>2002</b>
Expenses related to sales and other retirement of assets	752,354	569,349
Expenses related to sales and other retirement of fixed assets	26,605	47,402
Allocations to doubtful debt provisions	558,403	643,989
Allocations for devaluation of financial investments	3,486	
Expenses for taxes and duties	377,693	291,238
Expenses for services of lending organizations	115,958	88,593
Expenses related to participation in joint activities	2,873	3,168
Other operating expenses	101,111	34,498
of which:		
insurance expenses	45,273	12,042
mobilization resources and long-term storage items	6,257	3,711
other	49,581	18,745
<b>TOTAL</b>	<b>1,938,483</b>	<b>1,678,237</b>

In 2003 the Company purchased promissory notes issued by JSC Vneshtorgbank valued at RUR531,566 thousand and transferred them as a payment of equipment of Private JSC Verisel-Telecom; also a promissory note of Private JSC Open Technologies 98 was purchased valued at RUR 90,000 thousand as payment to Private JSC Open Technologies 98 for supply of software of

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Oracle's E-Business Suite applications. These expenses are shown as income and expenses due to retirement of other assets.

Increase of expenses for taxes and duties resulted from growing property tax, while decrease of expenses for doubtful debt provisions was caused by reduced amount of accounts receivables overdue by over 90 days.

**7.4. Non-sales revenues and expenses:**

Non-sales revenues break down:

	<b>2003</b>	<b>2002</b>
Fines, late payment charges, damages for non-performance of contracts, receipts to indemnify losses	18,459	20,527
Profit of previous years, revealed in the reporting year	26,085	34,947
Exchange rate difference adjustments	245,922	37,713
Translation of exchange rates	16,523	11,372
Profit from written down accounts payable for which limitation period expired	4,655	29,005
Assets received free of charge	35,262	21,218
Value of equipment found in the course of inventory taking	13,371	30,917
Other	37,172	67,268
of which		
receipts from indemnification of losses	15,622	17,007
rebate of costs benefits to eligible customers	13,264	38,767
other	8,286	11,494
<b>TOTAL</b>	<b>397,449</b>	<b>252,967</b>

**Break down of non-sales expenses:**

	<b>2003</b>	<b>2002</b>
Fines, late payment charges, damages for non-performance of contracts, receipts to indemnify losses	43,402	19,934
Loss of previous years, revealed in the reporting year	73,064	67,795,
Exchange rate difference adjustments	306,755	308,985
Translation of exchange rates	89,196	64,336
Written down accounts receivables	676	45,194
Value of property revealed in the course of inventory taking	27	46
Expenses for charity and sponsor aid, cultural events and other similar festivities	102,598	108,387
Membership fees in associations, not-for-profit partnerships	72,181	69,316
Payments to employees not included into ordinary activities expenses	417,967	284,734
Expenses for mobilization and civil defense	18,997	16,465
Fines and late payment charges for taxes and duties	6,906	37,151
Other	200,452	313,366
of which:		
consulting and auditor services, training	52,314	77,934
non-government pension funds, allocations to social needs and trade unions	138,560	120,560
reorganization expenses		87,646
other	9,578	27,226

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<b>TOTAL</b>	<b>1,332,221</b>	<b>1,335,709</b>
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The Company is a founder of Not-for-profit Partnership Center for Telecommunications Development Studies. In order to fulfill the Partnership's objectives according to the Charter the Company makes annual membership fee payments. The membership fee in 2003 according to a decision of the Partnership Board was set at RUR198,503 thousand. However, payment of the membership fee in full failed to get approval of the Board of Directors of the Company. Upon an agreement with the partnership a membership fee of RUR153,988 thousand subject to approval of the Board of Directors will be paid under a new agreement to be concluded by the Company and Partnership for 2004.

#### 7.5. Extraordinary income and expenses

Break down of extraordinary income:

	<b>2003</b>	<b>2002</b>
Insurance indemnity	3,097	88
<b>TOTAL</b>	<b>3,097</b>	<b>88</b>

Break down of extraordinary expenses:

	<b>2003</b>	<b>2002</b>
Cost of lost tangible inventory items	1,825	7
Loss from writing down fixed assets	4,583	6
Expenses on rescue operations during natural disasters and other emergencies	1,199	41
<b>TOTAL</b>	<b>7,607</b>	<b>54</b>

Extraordinary income is related to indemnity paid for insured risks (indemnity of losses due to burnt out payphones in the amount of RUR1,457 thousand, indemnity of car accidents losses of RUR1,445 thousand); extraordinary expenses are mainly related to failures (failed payphone board RUR1,641 thousand, power failures resulting in outages of telecommunications equipment in the amount of RUR4,480 thousand).

#### 7.6. Profit tax expenses

In 2003 due to enactment of Accounting rules: Accounting for profit tax expenses (PBU 18/2002) in the accounts profit tax expenses to be deducted from pre-tax profit are defined as the amount of the conditional profit tax adjusted for permanent tax assets and liabilities.

The Company profit tax expenses for 2002 are formed as profit tax calculated according to requirements of the Tax Code of the Russian Federation. To reflect the comparable data for 2002 the Company calculated deferred tax liabilities and assets, and permanent tax liabilities and expenses for 2002.

This amount of tax profit expenses is formed in the profit and loss account for 2003 as the aggregate of amount shown in items Deferred tax assets, Deferred tax liabilities and Current profit tax, being disclosed pursuant to Accounting rules: Accounting for profit tax.

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In 2003 the Company identified the following components of the profit tax:

<b>Description</b>	<b>Amount</b>	<b>Profit tax rate</b>	<b>Amount</b>	<b>Description</b>
1. Balance sheet profit for 2003	2,303,866	24%	(552,928)	Conditional profit tax expenses
2. Permanent taxable differences	1,016,323	24%	(243,918)	Permanent tax liability
3. Taxable time differences (given the reduction)	(496,711)	24%	119,211	Deferred tax liability
4. Deductible time differences (given the reduction)	(5,890)	24%	1,414	Deferred tax asset
5. Taxable tax base of profit tax (1+2-3-4)	2,817,588	24%	(676,221)	Current profit tax (1+2-3-4)
6. Profit tax allowance			971	Current profit tax Permanent tax liability
7. Profit tax for previous periods			(450)	Current profit tax Permanent tax liability
			(675,700)	Current profit tax, TOTAL (5-6+7)
8. Deferred tax liability written down due to retirement of fixed assets	1,950	24%	(468)	Deferred tax liability Permanent tax liability
			119,679	<b>Deferred tax liability, TOTAL</b> (3-8)
			243,865	<b>Permanent tax liability, TOTAL</b> (2-6+7+8)

The Company's tax profit expenses for 2003 were:

<b>Total</b>	<b>(796,793)</b>
including	
- conditional profit tax expenses	(552,928)
- permanent tax liabilities	(243,865)
- permanent tax assets	

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In the profit and loss account of the Company the Company's expenses for profit tax for 2003 are shown as the aggregate of the amounts:

<b>Total</b>	<b>(796,793)</b>
including	
- current tax	(675,700)
- deferred tax liabilities	(119,679)
- deferred tax assets	(1,414)
<b>Permanent differences resulted in adjustment of the conditional profit tax, total</b>	<b>1,016,322</b>
including:	
<b>Permanent taxable differences, total</b>	<b>1,215,914</b>
Expenses included in costs, but not deductible for the purposes of profit taxation	56,761
Accrued depreciation for fixed assets acquired using budgetary funds of special purpose financing, and for fixed assets transferred for free-of-charge use	10,596
Losses from free-of-charge transfer of property and related expenses	3,221
Difference between depreciated value of fixed assets for the purpose of accounting and taxation in the event of retirement of fixed assets	6,621
Cost of written off tangible items and expenses related to this	735
Free of charge receipts (income) to be taxed at the moment of the receipt, but to accounted for on account 98 Deferred revenues according to accounting rules	106,298
Expenses for any type of remuneration/compensations payable to employees, beside paid under employment contracts (agreements)	415,660
Expenses on social needs not attributable to payments to employees	24,143
Taxes not accepted for taxation purposes	8,588
Expenses for voluntary insurance of employees except those specified in 16 item 255	120,384
Expenses for the not-profit partnership	69,949
Written off accounts receivable	676
Surplus of daily travel allowance expenses over the norm	2,932
Interest accrued by a taxpayer-borrower in favor of the lender in addition to amounts recognized as costs for taxation purposes according to Clause 269 of the Tax Code	10,526
Differences in the rules of allocations to doubtful debt provisions	44,265
Accrued provisions for devaluation of financial investments	3,486
Amounts of voluntary membership fees (including initiation fee) for public organizations; voluntary contributions of members of associations, unions, associations, organizations (groups) to support these unions, etc.	72,242
Payment for recuperation, rest, tours, excursions, sport/fitness clubs, attendance of cultural and sport events	33,790
Fines, late payment charges for breaches of tax legislation	6,906
Loss of the reporting period due to activities related with using services of ancillary production facilities and sites (according to Article 275.1 of the Tax Code of the Russian Federation)	22,403
Expenses of previous years revealed in the reporting (tax) period which are basically not	



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treated as costs for the taxation purposes	30,739
Extraordinary income	3,096
Amount of unified imputed income tax (UIIT)	499
Allocations to trade union organizations	13,681
other taxable permanent differences	147,717
<hr/>	
<b>Permanent deductible differences causing adjustment of the conditional profit tax, total</b>	<b>199,592</b>
including:	
Dividend income from participation in activities of other organizations	703
Profit from activities transferred to UIIT	2,527
Leasing payments less accrued depreciation (in the event that equipment received under leasing arrangements is accounted for on the Lessee's balance sheet)	155,688
Positive difference arrived at due revaluation of securities to current market prices	3,453
Income of previous years revealed in the reporting (tax) period which are basically not income for the taxation purpose	4,302
Income equal to accrued depreciation of property received at the expense of free-of-charge receipts	23,800
Extraordinary expenses	7,397
Other deductible permanent differences	1,722
<hr/>	
<b>Taxable time differences (given the reduction) causing adjustment of the conditional profit tax, total:</b>	<b>498,661</b>
including:	
difference in calculation of fixed asset depreciation between bookkeeping and tax accounting	485,348
difference in the deferred expense recognition between bookkeeping and tax accounting	11,363
difference forming the amount of deferred tax liability posted to profit and tax account due to retirement of the asset	1,950
<hr/>	
<b>Deductible time differences (given the reduction) causing adjustment of the conditional profit tax, total:</b>	<b>(5,890)</b>
including:	
Loss from realization of fixed assets	(617)
Loss of previous years calculated according to Chapter 25 of the Tax Code of the RF and recognized in the reporting period as tax expense	(12,978)
Losses on the base of the transition period	(9,962)
Translation of exchange rates	17,667

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**7.7. Net profit of the reporting period**

In 2003 the net profit (loss) of the reporting period was determined according to accounting data based on the principle that profit tax expenses deductible from pre-tax profit are defined as the amount of the conditional profit tax expenses adjusted for the amount of permanent tax liabilities and assets.

Net profit (loss) of the reporting period in the profit and loss account for 2003 was calculated on the premise that the profit tax expenses deductible from pre-tax profit were formed as the aggregate of the amounts shown in items Deferred tax assets, Deferred tax liability and Current profit tax.

**7.8. Earnings per share**

Basic profit per share reflects a part of the reporting year profit due to shareholders – owners of voting shares. It is calculated as the ratio of the basic profit of the reporting year to the average weighted number of outstanding ordinary shares over the year.

Basic profit of the reporting year is equal to the net profit (item 190 Profit and loss account) less dividend on preference shares for 2003 in the amount recommended by the Board of Directors, but not approved by meeting of shareholders as on the date of signing the accounting reports for 2003.

In 2003 the Company did not undertake additional share issues and did not have securities to be converted into additional ordinary shares according to terms and conditions of the securities issue; nor there was an event involving increase of the number of voting shares. So the Company does not calculate diluted profit per share.

	<b>2003</b>	<b>2002</b>
Basic profit of the reporting year, RUR in thousands	1,352,308	753,887
Averaged weighted number of outstanding ordinary shares in the reporting year, thousand shares	1,578,007	1,578,007
Basic profit per share, RUR	0.86	0.48

## **8. Affiliated persons**

In the explanatory notes the Company discloses material information regarding affiliated persons. The complete list of affiliated persons of the Company is given below:

- OJSC Rostelecom
- Private JSC Mobile telecommunications
- Private JSC RusLeasingSvyaz
- JSC Giprosvyaz

### **JSC MGTS**

- JSC Svyazinvest;
- JSC Central Telegraph
- JSC RTC-Leasing
- JSC RTComm.RU
- Private JSC RTC-Invest
- JSC Kostromskaya GTS
- Not-for-Profit Partnership Center for Telecommunications Development Studies
- daughter companies:

- Telecom-Stroy LLC
- Teleport-Ivanovo LLC
- Telecom-Terminal LLC
- MobilCom LLC
- VladPage LLC
- Private JSC CenterTelecomService
- Svyaz-Service-Irga LLC
- Private JSC Svyazproekt
- Private JSC CenterTelecomService of the Moscow region
- Vladimirski payphone LLC
- Private JSC Telecom of the Ryazan region
- Private JSC TeleRoss-Voronezh
- Private JSC Vladimir-Teleservice
- Private JSC Cellular Communications of the Black Soil Area (Chernozemie)

- related companies:

- Private JSC Kaluzhskaya Cellular Communications
- Private JSC Smolenskaya Cellular Communications

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- Private JSC Ryazanskaya Cellular Communications
- Private JSC Tverskaya Cellular Communications
- Private JSC Bryanskies Cellular Networks
- Private JSC Belgorodskaya Cellular Communications
- Radiopaging incorporated company Limited Company
- Rating LLC
- TverTelecom LLC
- JSC Telecommunication company Rinfotels
- JSC Kaluzhski gas and energy stock bank Gasenergobank
- Trunksvyaz LLC

**The parent company**

The Company is controlled by JSC Svyazinvest, owning 38.01 percent of the Company Charter capital and 50.69 percent of the voting shares. The remaining 49 percent of the voting shares is distributed among a vast group of shareholders. JSC Svyazinvest is the final parent company of the Group of related organizations, of which the Company is a member.

**Sales of products to affiliated persons**

In the reporting year the Company rendered services and cell products to the following affiliated persons:

<b>Organization</b>	<b>Relation</b>	<b>Type of sales</b>	<b>Pricing</b>	<b>2003</b>	<b>2002</b>
JSC Rostelecom	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC Rostelecom	Traffic carrying services	Settlement rates and tariffs regulated by MAP of the RF	440,044	55,986
JSC Kaluzhski gas and energy stock bank Gasenergobank	JSC CenterTelecom owns 26 percent of voting shares	Lease of communications channels	Contractual	933	120
JSC RTComm.RU	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of	Traffic carrying services	Contractual	67	11

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	voting shares of JSC RTComm.RU				
Private JSC Vladimir-Teleservice	JSC CenterTelecom owns 50 percent of voting shares	Lease of communications channels	Contractual	389	124
TverTelecom LLC	JSC CenterTelecom owns 26 percent of voting shares	Lease of communications channels	Contractual	5,913	4,698
Private JSC TeleRoss-Voronezh	JSC CenterTelecom owns 50 percent of voting shares	Lease of communications channels	Contractual	386	207
Vladimirski payphone LLC	JSC CenterTelecom owns 51 percent of voting shares	Lease of communications channels	Contractual	3,394	2,406
Private JSC Bryansk Cellular Networks	JSC CenterTelecom owns 34 percent of voting shares	Lease of communications channels	Contractual	1,537	852
MobilCom LLC	JSC CenterTelecom owns 100 percent of voting shares	Lease of communications channels	Contractual	776	206
Private JSC Kaluzhskaya Cellular Communications	JSC CenterTelecom owns 42 percent of voting shares	Lease of communications channels	Contractual	1,989	863
Private JSC Tverskaya Cellular Communications	JSC CenterTelecom owns 40 percent of voting shares	Lease of communications channels	Contractual	1,345	986
Private JSC Cellular Communications of the Black Soil Area (Chernozemie)	JSC CenterTelecom owns 60 percent of voting shares	Lease of communications channels	Contractual	5,974	4,650
Svyaz-Service-Irga LLC	JSC CenterTelecom owns 70 percent of voting shares	Lease of communications channels	Contractual	27	16
JSC Telecommunications company Rinfotels	JSC CenterTelecom owns 26 percent of voting shares	Lease of communications channels	Contractual	3,129	1,511
Private JSC CenterTelecomService of the Moscow region	JSC CenterTelecom owns 75 percent of voting shares	Lease of communications channels	Contractual	1,011	460
Private JSC Ryazanskaya Cellular Communications	JSC CenterTelecom owns 40 percent of voting shares	Lease of communications channels	Contractual	1,250	896
Private JSC	JSC	Lease of	Contractual	1,127	

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CenterTelecomService	CenterTelecom owns 75 percent of voting shares	communications channels			
Private JSC Telecom of Ryazan region	JSC CenterTelecom owns 51 percent of voting shares	Lease of communications channels	Contractual	990	650
Tver-telecom LLC	JSC CenterTelecom owns 100 percent of voting shares	Lease of communications channels	Contractual	367	306
Teleport-Ivanovo LLC	JSC CenterTelecom owns 100 percent of voting shares	Lease of communications channels	Contractual	136	145
VladPage LLC	JSC CenterTelecom owns 75 percent of voting shares	Lease of communications channels	Contractual	89	64
Telecom-Story LLC	JSC CenterTelecom owns 100 percent of voting shares	Lease of communications channels	Contractual	1,036	856
JSC Central Telegraph	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC Central Telegraph	Traffic carrying services	Contractual	9,322	8,753
<b>TOTAL</b>				<b>481,231</b>	<b>84,766</b>

**Purchases from affiliated organizations**

In the reporting year the following affiliated persons rendered services, cell products to the Company:

<b>Affiliated organization</b>	<b>Relation</b>	<b>Type of purchases</b>	<b>Pricing</b>	<b>2003</b>	<b>2002</b>
JSC Rostelecom	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC Rostelecom	Traffic carrying services	Settlement rates and tariffs regulated by MAP of the RF	2,140,925	1,390,196

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Private JSC Cellular Communications of the Black Soil Area (Chernozemie)	JSC CenterTelecom owns 60 percent of voting shares	Lease of communications channels	Contractual	791	606
Private JSC Kaluzhskaya Cellular Communications	JSC CenterTelecom owns 42 percent of voting shares	Lease of communications channels	Contractual	136	103
Private JSC Bryanskije Cellular Networks	JSC CenterTelecom owns 34 percent of voting shares	Lease of communications channels	Contractual	1,921	794
Private JSC TeleRoss-Voronezh	JSC CenterTelecom owns 50 percent of voting shares	Lease of communications channels	Contractual	178	169
Private JSC Tverskaya cellular Communications	JSC CenterTelecom owns 40 percent of voting shares	Lease of communications channels	Contractual	865	431
Svyaz-Service-Irga LLC	JSC CenterTelecom owns 70 percent of voting shares	Lease of communications channels	Contractual	29	21
Vladimirski payphone LLC	JSC CenterTelecom owns 51 percent of voting shares	Lease of communications channels	Contractual	50	26
Private JSC Ryazanskaya Cellular Communications	JSC CenterTelecom owns 40 percent of voting shares	Lease of communications channels	Contractual	183	96
Telecom-Stroy LLC	JSC CenterTelecom owns 100 percent of voting shares of Telecom-Stroy LLC	Lease of communications channels	Contractual	5,048	3,650
Private JSC Telecom of the Ryazan region	JSC CenterTelecom owns 51 percent of voting shares	Lease of communications channels	Contractual	26,005	151
Teleport-Ivanovo LLC	JSC CenterTelecom owns 100 percent of voting shares	Lease of communications channels	Contractual	313	298
Private JSC RusLeasingSvyaz	JSC Svyazinvest, owning over 20	Financial leasing	Contractual price	63,576	2,129

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	percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of Private JSC RusLeasingSvyaz				
MobilCom LLC	JSC CenterTelecom owns 100 percent of voting shares of MobilCom	Lease of communications channels	Contractual	437	450
JSC Telecommunications company Rinfotels	JSC CenterTelecom owns 26 percent of voting shares of JSC TC Rinfotels.	Lease of communications channels	Contractual	1,106	895
JSC RTComm.RU	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC RTComm.RU	Traffic carrying services	Contractual	36,776	26,850
JSC Giprosvyaz	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC Giprosvyaz	Surveying and design	Contractual price	14,820	6,829
JSC MGTS	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC MGTS	Right-of-way in cable ducts	Tariffs approved by JSC MGTS	1,135	9,222
JSC MGTS	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC	Rent of uninhabited buildings	Contractual price	536	1,192



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	MGTS				
JSC MGTS	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC MGTS	Catering services	Contractual price	698	478
Private JSC Mobile telecommunications	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC MTC	Arranging training workshops/seminars	Contractual price	17	
JSC Central Telegraph	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC Central Telegraph	Traffic carrying services	Contractual	226	360
JSC RTC-Leasing	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC RTC-Leasing	Settlements on leasing, received	Contractual	286,812	
Not-for-profit partnership Center for Telecommunications Development Studies	JSC CenterTelecom is a member of Not-for-profit partnership Center for Telecommunications Development Studies	Membership fee	Contractual	70,448	100,808
JSC Kostromskaya GTS	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting	Right-of-way in cable ducts	Tariffs approved by JSC KGTS	8,477	6,450

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	shares of JSC Kostromskaya GTS				
JSC Svyazinvest	JSC Svyazinvest owns over 20 percent of voting shares of JSC CenterTelecom	Repayment of the principal and interest payments on loans granted.	Contractual	29,140	30,537
<b>TOTAL</b>				<b>2,697,189</b>	<b>1,582,741</b>

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**Account Settlements with Affiliated Persons**

As on December 31, 2003 the debt of the affiliated persons to the Company and the Company debt to the affiliated persons was as follows:

	Type of relation	Type of indebtedness	2003
<b>Accounts receivable</b>			
JSC Rostelecom	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC Rostelecom	Traffic carrying services	1,796
JSC Kaluzhski gas and energy stock bank Gasenergobank	JSC CenterTelecom owns 26 percent of voting shares of Gasenergobank	Lease of communications channels	30
Private JSC Bryanskies Cellular Networks	JSC CenterTelecom owns 34 percent of voting shares	Lease of communications channels	268
Private JSC Kaluzhskaya Cellular Communications	JSC CenterTelecom owns 42 percent of voting shares	Lease of communications channels	292
Private JSC Cellular Communications of the Black Soil Area (Chernozemie)	JSC CenterTelecom owns 60 percent of voting shares	Lease of communications channels	1,360
Svyaz-Service-Irga LLC	JSC CenterTelecom owns 70 percent of voting shares	Lease of communications channels	77
Private JSC Ryazanskaya Cellular Communications	JSC CenterTelecom owns 40 percent of voting shares	Lease of communications channels	1,513
VladPageLLC	JSC CenterTelecom owns 75 percent of voting shares	Lease of communications channels	172
TverTelecom LLC	JSC CenterTelecom owns 26 percent of voting shares	Lease of communications channels	2,927
Private JSC Telecom of the Ryazan region	JSC CenterTelecom owns 51 percent of voting shares	Lease of communications channels	486
Private JSC CenterTelecomService	JSC CenterTelecom owns 75 percent of voting shares of Private JSC CenterTelecomService	Lease of communications channels	87
JSC Central Telegraph	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC Central Telegraph	Traffic carrying services	1,730
Private JSC CenterTelecomService of the Moscow region	JSC CenterTelecom owns 75 percent of voting shares	Lease of communications channels	92,607
Telecom-terminal LLC	JSC CenterTelecom owns 100 percent	Lease of communications	295

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	of voting shares	channels	
Vladimirski payphone LLC	JSC CenterTelecom owns 51 percent of voting shares	Lease of communications channels	3,031
Teleport-Ivanovo LLC	JSC CenterTelecom owns 100 percent of voting shares	Lease of communications channels	208
Telecom-Stroy LLC	JSC CenterTelecom owns 100 percent of voting shares	Lease of communications channels	5,007
Private JSC Vladimir-Teleservice	JSC CenterTelecom owns 50 percent of voting shares	Lease of communications channels	54
Private JSC Tverskaya cellular Communications	JSC CenterTelecom owns 40 percent of voting shares	Lease of communications channels	398
JSC Telecommunications company Rinfotels	JSC CenterTelecom owns 26 percent of voting shares	Lease of communications channels	331
MobilCom LLC	JSC CenterTelecom owns 100 percent of voting shares	Lease of communications channels	8,716
JSC Giprosvyaz	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC Giprosvyaz	Design and surveying works	574
<b>TOTAL</b>			<b>121,959</b>
<b>Accounts payable</b>			
Private JSC RusLeasingSvyaz	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of Private JSC RusLeasingSvyaz	Financial leasing	18,195
Private JSC Bryanskia Cellular Networks	JSC CenterTelecom owns 34 percent of voting shares	Lease of communications channels	222
Private JSC Cellular Communications of the Black Soil Area (Chernozemie)	JSC CenterTelecom owns 60 percent of voting shares	Lease of communications channels	35
Private JSC Tverskaya cellular Communications	JSC CenterTelecom owns 40 percent of voting shares	Lease of communications channels	66
JSC Rostelecom	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC Rostelecom	Traffic carrying services	218,988
JSC MGTS	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC MGTS	Rent of uninhabited buildings	116
Private JSC Telecom of the Ryazan region	JSC CenterTelecom owns 51 percent of voting shares	Lease of communications channels	1,332

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JSC RTComm.RU	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC RTComm.RU	Traffic carrying services	5,754
JSC Kostromskaya GTS	JSC Svyazinvest, owning over 20 percent of voting shares of JSC CenterTelecom, owns over 20 percent of voting shares of JSC Kostromskaya GTS	Right-of-way in cable ducts	579
JSC Svyazinvest	JSC Svyazinvest owns over 20 percent of voting shares of JSC CenterTelecom	Repayment of principal and interest payments on the provided loans	30,362
<b>TOTAL</b>			<b>275,649</b>

**Remuneration paid to members of the Board of Directors**

In 2003 the Company paid salary, bonuses and remuneration totaled RUR35,633 thousand (RUR7,005 thousand in 2002) to members of the Board of Directors, members of the Management Board and the Audit Commission. The lists of members of the Board of Directors and the Management Board are shown in the section General/Background these notes.

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**9. State Aid**

<b>Description of the state aid</b>	<b>Amount</b>
Funds to finance capital expenditures, related to acquisitions, construction and purchase of non-current assets.	4,745
Refunds to individuals eligible for benefits, under 50 percent rate approved by MAP of the RF.	15,812
<b>TOTAL</b>	<b>20,557</b>

**10. Net Assets of the Company**

The Company's net assets exceeds the Charter Capital in compliance with par. 4 Article 35 of the Federal Law 35 #08-FZ of December 26, 1995 On Joint-Stock Companies.

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## **11. Non-governmental pension insurance**

In 1998-2002 the Company concluded agreements with the following non-governmental pension funds (NGPFs):

- NGPF Telecom-Soyuz;
- Tolski Regional NGPF;
- Tverskoy NGPF Sodruzhestvo.

Under the agreements the Company shall make fixed contributions to be annually agreed by the parties.

Contribution made by the Company in 2002 to non-governmental; pension insurance totaled RUR114,214 thousand (including the merged companies). In 2003 the amount was RUR132,244 thousand.

## **12. Contingent Liabilities**

As on December 31, 2003 the Company was a surety for third parties obligations totaled RUR1,550,466 thousand (RUR1,528,458 thousand in 2002). The Directorate of the Company does not expect any material liabilities to arise in connection with the surety. thousand).

In 2003 there was 78 suits filed by legal entities against the Company amounted to RUR45,274 thousand, including:

- 31 lawsuits amounting to RUR37,002 thousand to recover losses arising from telephone service agreements;
- 11 lawsuits amounting to RUR60 thousand in connection with pre-contract disputes;
- 36 lawsuits amounting to RUR8,212 thousand in connection with other disputes (including those with tax authorities).

Some 60 lawsuits out of these and other (filed in 2002) were settled in court the reporting period in the amount of RUR33,714 thousand, including:

- 24 lawsuits amounting to RUR26,373 thousand for indemnification of losses arising from telephone service agreements;
- 9 lawsuits connected to pre-contract services;
- 27 lawsuits amounting to RUR7,341 thousand in connection with other disputes (including those involving tax authorities).

Of these lawsuits, the plaintiffs won:

- 4 lawsuits for a total award of RUR719 thousand for indemnification of losses arising from telephone service agreements;
- 14 lawsuits for RUR993 thousand in connection with other disputes.

The plaintiffs lost:

- 17 lawsuits totaling RUR25,321 thousand for indemnification of losses arising from telephone service agreements;
- 5 lawsuits in connection with pre-contract disputes;
- 8 lawsuits totaling RUR6,000 thousand in connection with other disputes (including those with tax authorities).

Litigations were over for:

- 4 lawsuits totaling RUR342 thousand for indemnification of losses arising from telephone service agreements;
- 4 lawsuits in connection with pre-contract disputes;

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- 5 lawsuits totaling RUR347 thousand in connection with other disputes.

As on January 1, 2004 there were 21 ongoing litigations, with claimed amount of RUR11,997 thousand. Of which:

- 6 lawsuits amounting to RUR10,621 thousand for indemnification of losses arising from telephone service agreements;
- 2 lawsuits totaling RUR60 thousand connected to pre-contract disputes;
- 13 lawsuits amounting RUR1,316 thousand in connection with other disputes.

Order #03-32/pc dated July 2, 2003 of the Federal Commission for Securities Market On information disclosure by issuers of securities the following types of lawsuits are considered as material, likely to affect the financial position of the issuer:

- lawsuits amounting to over 10 percent of the issuer's assets;
- lawsuits preventing business activities or aimed at termination or prohibition of those (lawsuits demanding liquidation of the Company, or insolvency (bankruptcy) of the Company and its daughter and affiliated companies, alienation of the property (assets), disputing rights granted under licenses, patents, recovery of overdue taxes and duties payable to the budget and non-budgetary funds in significant amount).

Ten percent of the balance sheet assets of the Company amounted as on January 1, 2004 to RUR3,267,440 thousand.

As on January 1, 2004 an application filed by the Company's Moscow subsidiary with the Arbitration Court of the Moscow region was under consideration. The application requests to invalidate the state registration of the property rights of the Municipality of the Chekhov area of the Moscow region for urban and rural telephone and radio broadcasting networks included in the Company's balance sheet and in the privatization plan, and to deem invalid the certificates of the state registration of rights of the Municipality of the Chekhov area of the Moscow region for urban and rural telephone and radio broadcasting networks. The court hearings of the case are scheduled for March 16, 2004 by an Ordinance of the Arbitration Court.

As on January 1, 2004 there were no other litigations involving the Company that might be deemed material.

In 2003 the Federal Assembly of the Russian Federation initiated an audit by the Accounting Chamber of the Russian Federation of JSC Svyazinvest – a shareholder owning the controlling interest in the Company. In the course of the audit the Chamber also conducted an audit of the Company itself. As on the date of reporting the audit was not over and no official conclusions of the Accounting Chamber can be presented. Therefore, it is impossible to assess the results of the audit the reporting date and identify potential influence of this contingent material acts, if any, on the Company activities.

On January 1, 2004 the newly passed Federal Telecommunications act came into force setting out the legal basis of telecommunications industry in Russia and identifying the industrial status of the state bodies. The Act may increase the extent to which the Company activities are regulated, and until adoption of required regulations a period of uncertainty and controversies is inevitable in connection with the interpretation of the Act by regulatory bodies.



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According to the new law the Company shall establish equal interconnection terms and conditions and traffic routing for operators rendering similar services, and provide interconnection and traffic carrying on the same terms and conditions and with the same quality as it offers to its structural units and affiliated persons.

Moreover, according to the new Telecommunications Act payment for local telephone calls is made according to the customer's (individual's) choice using monthly rental or per-minute billing.

The Company management is not in a position to predict repercussions and implications of the new Act for the Company.

The Russian economy despite obtaining market status in 2002, still has some specific features characteristic for transient economy, like inflation rate exceeding normal ones in the past periods, insufficient liquidity level of capital markets, currency regulations making the national currency unexchangeable beyond the territory of the Russian Federation. Successful functioning and stability of the Russian economy will to a great extent depend on the actions of the government in the course of regulatory, legal and economic reforms.

Currently, there is a number of tax, established on the federal and legal levels, like VAT, profit tax, sales tax, unified social tax and a number of others. In contrast with developed market economies legislation governing tax collection lacked specifics for a considerable time. Therefore practical applications of law are sometime uncertain. Precedents were set for only a few disputed cases. Often some issues are treated differently both by various governmental bodies and within these bodies, resulting in uncertainties and giving rise to disputes and controversies. Compliance with effective tax and other legislation (e.g. tax and currency regulations) is reviewed by various state authorities entitled to impose fines and late payment charges. These entail tax risks significantly exceeding those customary for countries with developed tax systems.

According to effective legislation tax declarations can be audited within three years. Completed tax audits of a legal entity in a certain period do not necessarily mean that the year or any tax returns pertaining to the year in question are closed for further inspection by tax authorities during the three year term.

The Company management believes that tax liabilities are shown fairly and fully in the attached balance sheet. However, a certain degree of risk remains that tax authorities would take a principally different stance on issues allowing for ambiguous interpretation materially affecting the financial position of the Company.

### **13. Events Occurring after Reporting Date**

#### **Dividends**

The amount of annual dividends per share will be approved by the annual general meeting of shareholders scheduled for June 2004. The Board of Directors of the Company passed a decision to propose that the general meeting of shareholders approve dividends for 2003 in the amount of RUR0.124867 per ordinary share and RUR0.28566 per preference share, totaling RUR347,297 thousand. Upon approval by the meeting the annual payable dividends will be reflected in the financial statements for 2004.

#### **Loans and Credits**

In February 2004 the Company concluded an agreement with the Saving Bank of the Russian Federation to receive a credit facility totaling RUR542,094 thousand with maturity on December 4,

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2008. The Company pays interest of 14.5 percent p.a. to the bank. Telecommunications equipment valued at RUR630,596 thousand was provided as the security for the credit.

Also, in February 2004 the Company concluded a loan facility agreement with ACB Rosbank (JSC) to the amount of RUR1,424,740 thousand. The facility is provided for 12 months from the first draw-down (February 27, 2004). The interest rate is 13.5 percent p.a.

In March 2004 the Board of Directors approved conclusion of credit agreement with JSC Investment bank Trust to the amount of RUR500,000 thousand for 1 year, at the interest rate of 14 percent p.a.

In January-March 2004 the Company issued bills of exchange through Private JSC RTC-Invest to the total value of RUR825,000 thousand. The bills are to be paid in January-March 2005.

In April 2004 the Board of Directors of the Company approved a decision to issue bearer bonds series 04 to the total value of RUR7,000,000 thousand for 5 years. There will be 7,000 thousand bonds issues, with the nominal value of RUR1,000 each. Each bond carries 10 coupons. The collateral for the bond issue (for the total value and coupons) is provided by surety agreement with Telecom-Terminal LLC.

**Financial Investments**

In December 2003 the Board of Directors of the Company passed a decision to acquire 100 percent of JSC Russian Telecommunications Network (JSC RTS) at the market price of USD29.5 million.

In March 2004 the Company acquired 775,227 ordinary registered shares, or 88.448 percent of the Charter capital of JSC RTS to the total value of USD25.9 million.

**Implementation of Oracle E-Business Suite**

In March 2004 the Board of Directors of the Company approved conclusion of an agent agreement with Not-for-Profit Partnership Center for Telecommunications Development Studies on implementation of an Enterprise Resource Planning system based on the Oracle E-Business Suite software to the total amount of USD1,063 thousand.

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**R. Amaryan**  
**General Director**

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**R. Konstantinova**  
**Chief Accountant**