

**JSC CenterTelecom**  
**Notes to the reporting for the year of 2002**

**Notes to the accounting reports of**

**JSC CenterTelecom**

**for the year 2002**

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These notes are an integral part of the annual financial statements of JSC CenterTelecom for the year 2002, prepared in accordance with the Russian Federation effective legislation.

## **1. ORGANIZATION AND SPHERES OF ACTIVITY**

### ***1.1. Company description***

Joint-Stock Central Telecommunications Company, shortened name JSC Center Telecom, INN 5000000970, (hereinafter referred to as the Company) was registered on November 1, 2002 by the Inspectorate of the RF Ministry for taxes and duties of the town of Khimki of Moscow region, under the main state registration number 1025006174710. The Company was domiciled at the address: 141400, RF town of Khimki of Moscow region Ul. Proletarskaya, b.23.

The main business activities of the Company in accordance with the granted licenses are as follows:

- Provision of telecommunications services;
- Provision of wire broadcasting;
- Provision of wireless access;
- Provision of wireless broadband access;
- Provision of personal radio signal services;
- Provision of radio signal services;
- Provision of domestic long-distance and international services;
- Provision of mobile communications services (cellular, etc.);
- Provision of mobile radiotelephone services;
- Provision of mobile radiotelephone services;
- Provision of air TV broadcasting services;
- Provision of TV broadcasting services via cable TV network;
- Provision of services on air broadcasting of sound programs and transmission of additional information;
- Provision of services on air broadcasting of sound programs;
- Provision of television and radio broadcasting;
- Operation of different types of telecommunications networks in the service area;
- Provision of data transmission services (including the Internet);
- Performing tests and measurement of the parameters of power facilities and constructions, their parts and elements in the installation, adjustment, operation, and maintenance process;
- Publishing and printing activity;
- Work on the introduction of quality management system;
- Work on certifying communications services;
- Work on the introduction of quality management system;
- Marketing research, development of the proposals on the development and reconstruction of telecommunications means;
- Conduction of construction activity;
- Operation of gas industry installations;
- Operation of underground constructions;
- Goods transportation across the Russian Federation;
- Passenger transportation by automobiles;
- Service and maintenance of transportation means;
- Operation of natural gas facilities;

- Activity on using precious metals;
- Activity on the operation of the municipal engineering systems and the engineering systems of urban localities;
- Special water use;
- Nature conservation work (services);
- Educational activity;
- Trade activity;
- Medical activity;
- Hotel activity;
- Storage of oil and its processing products;
- Provision of the Company's social safety;
- Activity on the protection of the information, qualifying as state secret and confidential information, including the Company's commercial secret;
- Development of mobilization plans, organization and taking action on providing for mobilization readiness;
- Conduction of foreign economic activities in accordance with the current legislation;
- Other types of activity, which are allowed by the Russian Federation legislation
- Other types of activity, which are allowed by the Russian Federation legislation

### ***1.2. Information about essential events***

The main factor in the activity for 2002 is the reorganization of the companies of JSC Svyazinvest group. The reorganization resulted in mergers of regional telecommunications operators into 7 super-regional companies.

In June 2002, the general meeting of shareholders of JSC CenterTelecom decided to reorganize the Company by merging into it the following regional telecommunications operators:

- JSC Belgorod Elektrosvyaz;
- JSC Bryanskvyazinform;
- JSC Elektrosvyaz of the Vladimir region;
- JSC Voronezhsvyazinform;
- JSC Ivtelecom;
- JSC Elektrosvyaz of the Kaluga region;
- JSC Elektrosvyaz of the Kostroma region;
- JSC Elektrosvyaz of the Kursk region;
- JSC Lipetsk Elektrosvyaz;
- JSC Elektrosvyaz of the Orel region;
- JSC Elektrosvyaz of the Ryazan region;
- JSC Smolenskvyazinform;
- JSC Tambov Elektrosvyaz;
- JSC Tulatelecom;
- JSC Elektrosvyaz of the Tver region;
- JSC Yartelecom

### ***1.3. Information about the Company's registrar and auditor***

The Company's registrar is JSC Registrator-Svyaz.

The Company's auditor is JSC Ernst & Young Vneshaudit.

#### ***1.4. Information about governing bodies***

Chairman of the Board of Directors:

Valery Nikolaevich Yashin– General Director of JSC Svyazinvest

Members of the Board of Directors are:

- Alexander Vladimirovich Lopatin – Deputy General Director of JSC Svyazinvest;
- Vadim Evgenievich Belov– Deputy General Director of JSC Svyazinvest;
- Oksana Valerievna Petrova– Deputy Head of division, Department of Corporate Management of JSC Svyazinvest;
- Ruben Andronikovich Amaryan– General Director of JSC CenterTelecom;
- Alexander Pavlovich Gribov– Deputy Head of the Department of the Russian Federal Property Fund;
- Alexander Vyacheslavovich Ikonnikov– Director of the Association for the investors rights protection;
- Oleg Ivanovich Betin– Head of the Tambov region Administration;
- Yuri Andreevich Pavlenko– First Deputy Minister of the Russian Federation Ministry of communications.

Members of the Management Board of JSC CenterTelecom, formed by the Company's Board of Directors:

- Ruben Andronikovich Amaryan– General Director of JSC CenterTelecom;
- Aleksey Alekseevich Lokotkov– First Deputy of the General Director of JSC Center Telecom;
- Nikolay Viktorovich Mezhuev– Deputy General Director of JSC CenterTelecom;
- Petr Nikolaevich Martyshechkin– Deputy General Director of JSC CenterTelecom;
- Maxim Aleksandrovich Pegasov– Deputy General Director of CenterTelecom;
- Alexander Ilyich Polnikov– Executive Director – Director of the Capital investment management department of JSC Svyazinvest ;
- Ella Mikhailovna Zhuravleva– Deputy General Director – Head of the Human Resources Department of JSC CenterTelecom ;
- Andrey Vasilievich Galaev– Deputy General Director of JSC CenterTelecom;
- Raisa Pavlovna Konstantinova– Chief Accountant of JSC CenterTelecom.

information on the deals, concluded by the affiliated persons in 2002 is detailed in section 11 «Affiliated persons».

The audit commission members are:

- Irina Viktorovna Prokofieva– Deputy Director – Head of division, Internal audit and economic analysis department of JSC Svyazinvest;
- Arseny Borisovich Plusnin– Head of the Corporate reorganization department of JSC CenterTelecom;
- Konstantin Vladimirovich Belyaev– Chief Accountant of JSC Svyazinvest.

## **2. BASIC PROVISIONS OF THE ACCOUNTING POLICIES**

### ***2.1. Intangible assets***

In relation to intangible assets accounting, Accounting Rules 14/2000 (approved by the RF Ministry of Finance decree of October 16, 2000 No 91n) are applied.

Intangible assets are valued at their original cost.

The amount of amortization charges on intangible assets is determined on a monthly basis according to the norms, calculated on the basis of their original value and the period of their useful life by a linear method. The period of the useful life of intangible assets can be determined, based on:

- Validity term of the patent, certificate and other restrictions of the terms of use of intellectual property objects according to the Russian Federation legislation;
- An expected period of an item use, within which an organization can derive economic profit (income). The expected period of the use of an intangible asset is determined by a specially formed commission in accordance with guidelines on intangible assets accounting and shall be approved by the General Director of the organization.
- With respect to intangible assets, for which it is impossible to state the term of useful life, norms of depreciation charges are stipulated for a 20-year period.

## ***2.2. Fixed assets***

Tangible assets with useful life of over 12 months are included in fixed assets. Accounting provisions 6/01 (approved by the RF Ministry of Finance of 30.03.2001 No 26 n) are applied for the fixed assets accounting. Fixed assets are valued in the accounting books at their original cost.

Fixed assets revaluation was done at the Tver regional subsidiary, increase of property value after the revaluation totaled to 561 968 800 rubles at the replacement cost and to 327 613 606 rubles at the depreciated cost.

Fixed assets are posted at their original (replacement) cost less sums of accumulated depreciation charges.

Depreciation charges on fixed assets are calculated by a linear method, proceeding from their original cost or current (replacement) cost (in case of the performed revaluation) of a fixed asset and a depreciation norm, calculated on the basis of the term of useful life of this object.

With respect to fixed assets worth less than 10 000 rubles, depreciation is calculated in the amount of 100% and is to be written off to production expenses, as the assets are assigned for production or operation.

As far as fixed assets, received under lease agreements are concerned, accelerated depreciation ratio, determined by the terms of the agreement and equal to 3 (three) in 2002 is applied.

All repair costs are included in the costs of the reporting period in which they were incurred. Provisions for deferred expenses on fixed asset repair are not allocated.

## ***2.3. Inventories***

Inventories (raw materials, materials, merchandise) are valued at the actual cost of their acquisition or manufacture.

Evaluation of retired inventories (with exception of precious metals) is effected at an average cost value.

#### ***2.4. Ruble translation of the value of assets and liabilities, expressed in foreign currency***

Translation into ruble amounts of values expressed in foreign currencies of the Company's cash funds, funds with credit organizations accounts, monetary and payment documents, short-term securities, payment funds (including acknowledgement of debt), balance of specific target financing accounts, received from the budget or foreign sources within the framework of technical or any other assistance programs for the Russian Federation in accordance with the concluded contracts (agreements) is effected as of the date of a foreign currency exchange operation, as well as at the reporting date.

#### ***2.5. Allocations of provisions***

The Company allocates the following provisions:

– Provisions for doubtful debts

amount is determined separately for each debt on the basis of the inventorying, subject to the debtor's solvency and probability of debt payment. The formation of this reserve is envisaged by both the accounting and tax legislation (which was enacted starting January 1, by Chapter 25 of the Tax Code). Accounts receivable overdue for up to 90 days are not subject to provisions, provisions for accounts receivable overdue for over 90 days are made to the full amount of debt.

For the purposes of taxation, the reserve on doubtful debts is built up according to the tax legislation. Accounts receivable due from buyers and customers are shown less the reserve on doubtful debts. A part of the Company's accounts receivable is made up by state institutions and other budget funded organizations. A number of political and economic factors, taken into account by the Company when the reserve on doubtful debts is built up, influence a possibility of debt collection.

#### ***2.6. Accounting for credits and repaid loans***

The organization transfers long-term debts on received credits and loans to short-term debts at the date, when under the loan and (or) credit agreement, 365 days are left till the maturity date of the principal amount.

Additional costs on the receipt of loans and credits and flotation of loans are included in the reporting period, when the abovementioned costs were incurred.

#### ***2.7. Deferred expenses***

Deferred expenses include the expenses, which were stated in the reporting period, but cannot be included in the cost value of the sold services, works, and products of the reporting period. Deferred expenses are regularly written down from appropriate payment sources within the period, to which they are related.

#### ***2.8. Income formation***

The Company's income is divided into ordinary activity income and other income (operating, non-sales, and extraordinary income).

Income is posted on the accrual basis, as services are rendered, and does not include value-added tax and sales tax.

## ***2.9. Formation of expenses***

Subject to their character, conditions and type of activity, expenses are divided into ordinary activity expenses; operating, non-sales, and extraordinary expenses.

Ordinary activity expenses are valued at amount, calculated in monetary form, which is equal to the payment amount in monetary or other form, and accounts receivable.

## ***2.10. State aid accounting***

Budget funds are posted to accounts as monetary funds and resources, other than monetary, are actually received.

## ***2.11. Inventory of property and liabilities is taken:***

- Fixed assets – at least once in two years as of November 1 of the reporting year;
- Intangible assets – annually as of December 1 of the reporting year;
- Capital construction in progress (incomplete construction) and other capital investments – annually as of November 1 of the reporting year;
- Raw materials, materials, equipment to be installed, semifinished products (in progress), goods, finished products at the warehouses – annually as of November 1 of the reporting year;
- Precious metals – twice a year;
- Construction in progress – on a quarterly basis as of the quarter end;
- Deferred income and expenses – annually as of December 31 of the reporting year;
- Monetary funds with banking institutions accounts – annually as of December 31 of the reporting year;
- Cash funds – no less than once in a quarter;
- Long-term capital investments – annually as of December 31 of the reporting year;
- Short-term capital investments, cash items – on a quarterly basis as of the quarter end;
- Settlements with debtors and provisions for doubtful debts – as of December 31 of the reporting year;
- Settlements with creditors (settlements with telecommunications operators) – on a quarterly basis as of the quarter end, with other creditors – once a year as of December 31 of the reporting year;
- Tax payment and mandatory allocations to the budget and non-budgetary funds – at least once a year;
- Settlements related to specific target finance – annually as of December 31 of the reporting year;
- Domestic settlements – no less than once a quarter;
- Settlements with the personnel and accountable persons – once a year as of December 31 of the reporting year.

## ***2.12 Expenses on pension insurance***

The Company makes payments into the Russian Federation Pension Fund, as well as social welfare and employment funds in relation to its employees. The Company's payments into the Pension Fund amount to 28% of the total payroll and are posted to expense accounts as these expenses are incurred.

In addition to the state pension fund payment scheme, the Company participates in the program of one-off bonus payments (within the limit from 30% to 100% of the salary) to the Company's employees in case of their retirement. This program covers the majority of the Company's employees and does not envisage any special payments to the fund. The payment amount depends on accumulated length of service upon retirement.

The Company also participates in a pension program, under which payments are determined in advance and effected within the framework of non-state pension insurance scheme. The amounts of payments are determined on an annual basis and are included in expenses as they are effected.

### ***2.13. Earnings per share***

In accordance with the Guidelines on disclosure of EPS data (approved by the RF Ministry of Finance decree of March 21, 2000 No 29n), earnings per share are calculated by dividing net income for the reporting period, which remains at the disposal of shareholders—holders of ordinary shares, by the average weighted number of outstanding ordinary shares in the reporting period.

### ***2.14. Reorganization of the Company's by merger***

Before the reorganization, the accounting policies of the core company differed significantly from the policies of merged companies in the following way:

JSC Telecommunications of the Tver region no less than once a year revalues the groups of similar fixed asset items at the current (replacement) cost by direct adjustment according to market values confirmed by documents.

As of the reorganization date, inventories of the property and liabilities of merged companies were taken. As a result of the inventory, some assets, which cannot be duly assigned to the legal successor (licenses, trademarks, letterhead forms bearing a merged company's name, strict accountability forms with the company's seal) were written off and included in organizational expenses.

### ***2.15. Main changes in the accounting policies for 2002 as compared to 2001***

The following essential changes were made in the accounting policies of the core company and merged companies in 2002 as compared to the accounting policies in 2001:

– ***Building up provisions for doubtful debts***

In 2002, provisions for accounts receivable overdue over 90 days were allocated to the full amount. There were no provisions for accounts receivables overdue for up to 90 days. In 2001, provisions for doubtful debts were not built up in some merged companies.

For the accounting comparability, below are shown the amounts of accounts receivable with maturity of over 90 days of JSC CenterTelecom subsidiaries as of 31.12.2000 and 31.12.2001 (thous. rubles).

<b>Name of subsidiary</b>	<b>Accounts receivable with maturity of over 90 days as of 31.12.2000 (Russian rubles in thousands)</b>	<b>Accounts receivable with maturity of over 90 days as of 31.12.2001 (Russian rubles in thousands)</b>

Belgorod	19,519	14,408
Bryansk	35,702	24,334
Vladimir	49,151	45,612
Voronezh	16,030	16,297
Ivanovo	49,236	47,182
Kaluga	16,235	7,447
Kostroma	29,963	15,557
Kursk	26,962	28,979
Lipetsk	30,215	26,847
Orel	38,242	39,220
Ryazan	11,706	7,778
Smolensk	12,142	5,125
Tambov	9,295	6,450
Tver		19,756
Tula	46,948	33,605
Yaroslavl	32,984	32,578
Moscow	35,321	35,607
<b>TOTAL</b>	<b>459,651</b>	<b>406,782</b>

– method of posting revenues for taxation purposes

In 2001, in some merged companies revenues from sales of goods (works, services) for taxation purposes were calculated as payments were effected. In 2002, the Company's revenues were calculated by accrual.

The Company's executives believe that the application of the new accounting principles provides for a more reliable presentation of economic activity in the Company's reporting for 2002. The consequences of the accounting policies change were not shown in the adjustment of the data, recorded in the reporting for the previous reporting period, as a monetary evaluation of these consequences in relation to the periods, which preceded the reporting period, cannot be done reliably and fairly enough.

### 3. CHANGES IN THE INTRODUCTORY BALANCE SHEET AS OF JANUARY 1, 2002

In the 2002 reporting, changes were made in an introductory balance sheet of JSC Center Telecom brought over to January 1, 2002 as a result of changes in accounting for low value rapidly worn items and fixed assets:

Table 1

Line #	31.12.2001 (*)	01.01.2002 (*)	Change, Δ (+/-)	Note
Line 110 from form 1	742	742	0	
Line 111 from form 1	742	742	0	
Line 112 from form 1	0	0	0	
Line 113 from form 1	0	0	0	
	<b>2 910 080</b>	<b>2 909 831</b>	<b>-249</b>	<b>Debit from line 210, 211, credit in lines 135-136</b>
Line 120 from form 1	0	0	0	
Line 121 from form 1	0	0	0	
Line 122 from form 1	<b>2 729 109</b>	<b>2 640 155</b>	<b>-88 954</b>	<b>Policy change</b>

Line 130 from form 1	608322	608322	0	
Line 135 from form 1	0	1 471	+1 471	from line 120,122 rented apartments
Line 136 from form 1	0	0	0	
Line 137 from form 1	0	1 471	+1 471	From line 120,122 rented apartments
Line 140 from form 1	3 393	3 393	0	
Line 141 from form 1	0	0	0	
Line 142 from form 1	0	0	0	
Line 143 from form 1	3 369	3 369	0	
Line 144 from form 1	0	0	0	
Line 145 from form 1	24	24	0	
Line 150 from form 1	0	0	0	
Line 190 from form 1	3 522 537	3 523 759	+1 222	Debit from low value and rapidly worn items
Line 210 from form 1	138 439	137 217	-1 222	Posting to line 122
Line 211 from form 1	118 494	117 272	-1 222	Posting to line 122
Line 212 from form 1	0	0	0	
Line 213 from form 1	0	0	0	
Line 214 from form 1	1 744	1 744	0	
Line 215 from form 1	0	0	0	
Line 216 from form 1	18 201	18 201	0	
Line 217 from form 1	0	0	0	
Line 220 from form 1	130 677	130 677	0	
Line 230 from form 1	109	109	0	
Line 231 from form 1	0	0	0	
Line 232 from form 1	0	0	0	
Line 233 from form 1	0	0	0	
Line 234 from form 1	0	0	0	
Line 235 from form 1	109	109	0	
Line 240 from form 1	612 548	612 548	0	
Line 241 from form 1	317 860	317 860	0	
Line 242 from form 1	0	0	0	
Line 243 from form 1	0	0	0	
Line 244 from form 1	0	0	0	
Line 245 from form 1	7 651	203 115	+195 464	Posting to line 246
Line 246 from form 1	287 037	91 573	-195 464	Posting to line 245
Line 250 from form 1	0	0	0	
Line 251 from form 1	0	0	0	
Line 252 from form 1	0	0	0	
Line 253 from form 1	0	0	0	
Line 260 from form 1	239 505	239 505	0	
Line 261 from form 1	4 230	4 230	0	
Line 262 from form 1	221 043	221 043	0	
Line 263 from form 1	4 571	4 571	0	
Line 264 from form 1	9 661	9 661	0	
Line 270 from form 1	0	0	0	
Line 290 from form 1	1 121 278	1 120 056	+1 222	Posting of low

				<b>value and rapidly worn items</b>
Line 300 from form 1	<b>4 643 815</b>	<b>4 643 815</b>	<b>0</b>	
Line 410 from form 1	<b>185 589</b>	<b>185 589</b>		
Line 420 from form 1	<b>1 761 308</b>	<b>1 761 308</b>		
Line 430 from form 1	<b>27 838</b>	<b>27 838</b>		
Line 431 from form 1	<b>27 838</b>	<b>27 838</b>		
Line 432 from form 1	<b>0</b>	<b>0</b>		
Line 440 from form 1	<b>0</b>	<b>0</b>		
Line 460 from form 1	<b>437 059</b>	<b>556 032</b>	<b>+118 973</b>	<b>Debit from line 470</b>
Line 465 from form 1	<b>0</b>	<b>0</b>		
Line 470 from form 1	<b>118 973</b>	<b>0</b>	<b>-118 973</b>	<b>Posting to line 460</b>
Line 475 from form 1	<b>0</b>	<b>0</b>	<b>0</b>	
Line 490 from form 1	<b>2 530 767</b>	<b>2 530 767</b>	<b>0</b>	
Line 510 from form 1	<b>600 000</b>	<b>600 000</b>	<b>0</b>	
Line 511 from form 1	<b>0</b>	<b>0</b>	<b>0</b>	
Line 512 from form 1	<b>600 000</b>	<b>600 000</b>	<b>0</b>	
Line 520 from form 1	<b>33 095</b>	<b>33 095</b>	<b>0</b>	
Line 590 from form 1	<b>633 095</b>	<b>633 095</b>	<b>0</b>	
Line 610 from form 1	<b>489 589</b>	<b>489 589</b>	<b>0</b>	
Line 611 from form 1	<b>489 589</b>	<b>489 589</b>	<b>0</b>	
Line 612 from form 1	<b>0</b>	<b>0</b>	<b>0</b>	
Line 620 from form 1	<b>729 417</b>	<b>729 417</b>	<b>0</b>	
Line 621 from form 1	<b>630 718</b>	<b>630 718</b>	<b>0</b>	
Line 622 from form 1	<b>0</b>	<b>0</b>	<b>0</b>	
Line 623 from form 1	<b>0</b>	<b>0</b>	<b>0</b>	
Line 624 from form 1	<b>91</b>	<b>91</b>	<b>0</b>	
Line 625 from form 1	<b>170</b>	<b>170</b>	<b>0</b>	
Line 626 from form 1	<b>12 252</b>	<b>12 173</b>	<b>-79</b>	<b>Posting to line 628</b>
Line 627 from form 1	<b>79 726</b>	<b>79 726</b>	<b>0</b>	
Line 628 from form 1	<b>6 460</b>	<b>6 539</b>	<b>+79</b>	<b>From line 625</b>
Line 630 from form 1	<b>4 240</b>	<b>4 241</b>	<b>+1</b>	<b>From line 640 rounding off</b>
Line 640 from form 1	<b>256 707</b>	<b>256 706</b>	<b>-1</b>	<b>In line 630 rounding off</b>
Line 650 from form 1	<b>0</b>	<b>0</b>	<b>0</b>	
Line 660 from form 1	<b>0</b>	<b>0</b>	<b>0</b>	
Line 690 from form 1	<b>1 479 953</b>	<b>1 479 953</b>	<b>0</b>	
Line 700 from form 1	<b>4 643 815</b>	<b>4 643 815</b>	<b>0</b>	
Line 910 from form 1	<b>216 093</b>	<b>216 093</b>	<b>0</b>	
Line 911 from form 1	<b>24 547</b>	<b>24 547</b>	<b>0</b>	
Line 920 from form 1	<b>458</b>	<b>458</b>	<b>0</b>	
Line 930 from form 1	<b>69</b>	<b>69</b>	<b>0</b>	
Line 940 from form 1	<b>23 151</b>	<b>23 151</b>	<b>0</b>	
Line 950 from form 1	<b>628 807</b>	<b>628 807</b>	<b>0</b>	
Line 960 from form 1	<b>534 179</b>	<b>534 179</b>	<b>0</b>	
Line 970 from form 1	<b>506</b>	<b>506</b>	<b>0</b>	
Line 980 from form 1	<b>276</b>	<b>276</b>	<b>0</b>	

Line 990 from form 1	25 416	25 416	0
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(\* - refers to the core company)

#### 4. ANALYSIS AND EVALUATION OF THE BALANCE SHEET STRUCTURE

As of December 31, 2002 the balance sheet structure is characterized by the following indices:

Table 2

Description	31.12. 2002 (with an allowance for the merged companies)	Target value C (*)
Absolute liquidity ratio	0,05	
Current liquidity ratio	0,6	1 – 1,5
Ratio of own fund sufficiency	-1,45	> 0.1
Sales margin	25,98%	

\* Target values are a characteristic of the satisfactory balance sheet structure.

The main reason for unsatisfactory liquidity ratios, calculated on the basis of the Company's balance sheet for 2002 is insufficient coverage with current assets of the Company's short-term liabilities. This is attributed to a significant amount of accounts payable due to suppliers and contractors and the Company's short-term liabilities on credits and loans.

Objective reasons for such liquidity ratios is the implementation of the Company's extensive investment program, aimed at the Company's business expansion, reconstruction, and infrastructure maintenance.

The main task, which the Company has to fulfill to improve liquidity ratios is the increase of the Company's profitability by increasing tariffs on regulated telecommunications services and increase of a share of unregulated telecommunications services. Increase in the Company's own funds will allow (in the event that planned switching capacity is reduced) to decrease amounts of accounts payable due to suppliers and contractors in the total amount of the Company's short-term liabilities. Restructuring of the Company's indebtedness on credits and loans, envisaging the transfer of most short-term liabilities to a long-term liabilities category is also necessary for the improvement of liquidity ratios.

For reference:

*Current liquidity ratio* characterizes the general provision of enterprises with current assets for their economic activity and timely payment of accrued liabilities. It is determined as a ratio of an actual value of current assets in form of stores and supplies, finished products, monetary funds, accounts receivable, and other current assets (Total for Section II of the balance sheet assets) to accrued liabilities in form of short-term bank credits, short-term loans, and accounts payable (Total for Section V of the balance sheet liabilities).

*Ratio of own fund sufficiency* characterizes the sufficiency of own current assets, necessary for their financial stability. It is determined as the ratio of the difference between amount of own assets sources (Total for Section III of the balance sheet liabilities) and an actual value of fixed assets and other non-current assets, which are not active (Total for Section I of the balance sheet assets) to an actual value of current assets in form of stores and supplies, production in progress, finished products, monetary funds, accounts receivable, and other current assets (Total for Section II of the balance sheet assets).

## 5. PROFIT DYNAMICS FOR 2002

Table 3  
Thous. rubles.

Type of activity	Revenues (line 010 f. 2)		Expenses (line 020,030, 040 f. 2)		Profit (line 050 f. 2)		Profit growth Δ,%
	2002	2001	2002	2001	2002	2001	
	<i>(taking into account merged companies)</i>						
Provision of telecommunications services	16 016 251	12 505 715	11 887 067	9 578 046	4 129 184	2 927 669	41,04 % +1 201 515
Other	373 016	293 586	244 852	416 733	128 164	-123 147	+251 311 204,07 %
<b>TOTAL:</b>	16 389 267	12 799 301	12 131 919	9 994 779	4 257 348	2 804 522	51,8% +1 452 826

The 2002 results show a *significant* growth of profit from telecommunications services, which is attributed to a hike in tariffs for local telecommunications services, growth of communications services sales, cutting down unproductive expenses, streamlining the corporate structure and consequently a significant reduction in expenses growth rates as compared to revenue growth rates.

## 6. COMPARABILITY OF ACCOUNTING INDICES

As mentioned above, JSC CenterTelecom was reorganized in June 2002 by merging into it a number of regional telecommunications operators. Legally the reorganization was completed on November 30, 2002. Correspondingly, accounting comparability principles of 2002 differ from those applied in the previous reporting periods.

The reporting period data are shown in the appended reports both taking into account merged companies as from the reorganization date to December 31, 2002 and for the whole year 2002. The data on the core company and merged companies from the reorganization date to the end of the year are expressed in the reporting by the words «For the reporting period» (or «year of 2002 »). The data on the core company and merged companies for the period from 01.01.2002 to 31.12.2002 are expressed by the words «For the reporting period taking into account merged companies» (or «2002 taking into account merged companies»).

The data for the previous reporting period were presented for comparability with the 2002 reporting. In the enclosed reporting, adjusted data as of 01.01.2002 are expressed by the phrase «as of the reporting period start with an allowance for the indices of merged companies» (or «01.01.2002 considering the indices of merged companies») and for 2001 by the phrase «For the same period of the previous year taking into account merged companies» (or «2001 taking into account merged companies»).

The indices of the merged companies at the year start and till the reorganization date are included in the enclosed reporting solely for the submission of comparable information about the financial state and results of JSC CenterTelecom financial activity for 2001 and 2002, as required by the Accounting rules 4/99 "Accounting of organizations".

## 7. EXPLANATION OF ESSENTIAL BALANCE SHEET ITEMS

### 7.1. Fixed assets

Fixed assets flow within the reporting period in the main groups (entry, retirement, etc.) is shown in Table 4:

*Table 4 thous.rubles.*

Fixed assets groups	Original cost as of 31.12.2001		Revaluation of fixed assets as of 01.01.2002		Replacement cost as of 01.01.2002		Entry within the year		Retirement within the year, total		Replacement cost as of 31.12.2002
	Total (taking into account merged companies)	Including merged companies	Total (taking into account merged companies)	Including merged companies	Total (taking into account merged companies)	Including merged companies	Total (taking into account merged companies) (*)	Including: merged companies before reorganization date	Total (taking into account merged companies) (*)	Including: merged companies before reorganization date	
1	2	3	4	5	6	7	8	9	10	11	12
Buildings and land plots	3 414463	2 732 033	187 553	187 553	3602016	2919586	307239	295350	41288	38407	3867967
Construction structures	7194213	6722265	238 509	238509	7432722	6960774	658441	636205	133517	133243	7957646
Plant and equipment	13662111	10 355430	135 066	135 066	13797177	10490496	3041719	2041825	239638	217540	16599258
Transportation means	388097	323812	4	4	388101	323816	78142	71 386	22810	21 927	443433
Other	237161	198384	838	838	237999	198472	234445	205646	91634	69140	380810
<b>TOTAL</b>	24 896 045	20 331174	561 970	561 970	25 458 015	20893144	4319986	3250412	528887	480257	29249114

(\*Operations, connected to the transfer of the balance of the merged companies to the core company due to the reorganization are excluded.

Below is the information about the accumulated depreciation amount on fixed assets:

Table 5

Fixed assets groups	Accumulated depreciation as of 31.12.2001		Revaluation of depreciation as of 01.01.2002 due to the fixed assets revaluation		Accumulated depreciation with an allowance for revaluation as of 01.01.2002		Depreciation calculated for 2002		Depreciation on retired fixed assets within the year, total		Accumulated depreciation 31.12.2002
	Total (taking into account merged companies)	Including merged companies	Total (taking into account merged companies)	Including merged companies	Total (taking into account merged companies)	Including merged companies	Total (with taking into account for merged companies) (*)	Including: merged companies till the reorganization date	Total (with an allowance for associated org-ns) (*)	Including merged companies till the reorganization date	
1	2	3	4	5	6	7	8	9	10	11	12
Buildings	767330	624353	53740	53740	821070	678093	63082	54325	14147	11705	872131
Construction structures	4264813	4111246	132864	132864	4397677	4244110	264466	225277	167302	167204	4487303
Plant and equipment	5166685	3956384	47342	47342	5214027	4003726	754162	624868	256553	233217	5895798
Transportation means	207122	179840	1	1	207123	179841	43068	32943	21767	16414	234829
Other	233733	112821	409	409	234142	113230	33944	32232	29156	26288	209982
<b>TOTAL</b>	10639683	8984644	234356	234356	10874039	9219000	1158722	969645	488925	454828	11700043

(\*Operations, connected to the transfer of the balance of the merged organizations to the core company due to the reorganization are excluded.

### ***Fixed assets received under hire agreements***

In the period from 1999 to 2002, the Company concluded one hundred and fifty-one financial hire (lease) agreements with the following lessors: JSC RTK-Leasing (90 agreements), LLC Centerbrokerleasing (1 agreement), LLC Promsvyazleasing (12 agreements), LLC Newcourt Financial CIS (1 agreement), JSC Ruzleasingsvyaz (7 agreements), JSC Telecom-Leasing (12 agreements), LLC NIKoil-Leasing (3 agreements), JSC Profit-Inkom (14 agreements), LLC Universal leasing company (5 agreements), JSC Voronezhavialeasing (2 agreements), JSC Turboleasing (2 agreements), LLC RMB-Leasing (2 agreements).

Lease agreements envisage lease of switching equipment, transportation vehicles, hardware-software complex, transmission systems, network equipment, most of which were received within 2001 and 2002. Term of lease is from 20 to 80 months.

Under the concluded agreements, there are two forms of accounting for leased items: part of the leased equipment is kept on a lessor's account, the rest – on a lessee's account.

#### ***1. The Company's part of a leased item is kept on a lessor's account***

The contract value of the leased equipment as of December 31, 2002 amounted to 391 583 thous. rubles. With an allowance for the premium, its value is 447 718 thous. rubles. The property, transferred under financial lease agreements, is kept in the lessor's account.

#### ***2. The Company's interest in the leased item is kept in the lessee's account***

Under the financial lease agreements, the received property is kept in the Company's account. Depreciation on fixed assets, received under financial lease agreements is calculated by a method of a straight line (linear), with an allowance for useful life period equal to 10-15 years from the date of commissioning a fixed asset item and using an accelerated depreciation ratio of 2.2-3, specified by the agreement.

As of December 31, 2002, the equipment, received under lease agreements and kept in the Company's account is worth (taking into account merged companies):

*Table 6*

	<b>(thous. rubles)</b>
Original cost	561 731
Calculated depreciation	-2 445
<b>Book value of leased fixed assets (line 120 form 1)</b>	<b>559 286</b>
<b>Book value of leased fixed assets (line 130 form 1)</b>	<b>45 437</b>

Lease liabilities as of 31.12.2002 amount to:

<b>Period of payback</b>	<b>(thous. rubles)</b>
2003	229 602
2004 – 2007	499 442
After 2007	913
<b>Total: lease liabilities</b>	<b>729 957</b>

As of December 31, 2002 the aggregate advance amount, paid to lessors under financial lease agreements totals 40 207 thous. rubles and is posted to the attached balance sheet in line 245 in the amount of 29 371 thous. rubles and in line 234 in the amount of 10 836 thous. rubles.

**7.2. Incomplete construction (construction in progress)**

Line 130 «Incomplete construction» Form 1 «Balance sheet»

Table 8

<b>Structure of incomplete construction</b>	<b>Investments in fixed assets production facilities as of 31.12.02, thous. rubles</b>	<b>Investments in fixed assets non-production facilities as of 31.12.02, thous. rubles</b>	<b>TOTAL:</b>
<b>Account 08 «Investments in non-current assets»</b>	<b>1 740 766</b>	<b>17 858</b>	<b>1 758 624</b>
<b>TOTAL:</b>			
Including:	1 199 275	7 386	1 206 661
Construction, modernization and renovation of fixed assets facilities by external contractors			
Construction, modernization and renovation of fixed assets facilities by the Company's own means	57 678	7 855	65 533
Capital investments in leased fixed assets facilities	862	-	862
Acquisition of individual fixed assets facilities	132 772	433	133 205
Acquisition of fixed assets under lease agreements	45 501	-	45 501
Acquisition of individual fixed assets facilities under investment projects	29 387	950	30 337
Other	275 291	1 234	276 525
<b>Account 07 «Equipment to be installed»</b>	<b>X</b>	<b>X</b>	<b>119 408</b>

### 7.3. Financial investments

Long-term and short-term financial investments of JSC CenterTelecom in 2002:

Table 9

Types of financial investments	Balance as of 01.01.2002		Entered		Retired		Balance as of 31.12.2002
	Total (taking into account merged companies)	Including: merged companies	Total (taking into account merged companies)	Including merged companies before the reorganization date	Total (taking into account merged companies)	Including merged companies before the reorganization date	
1	2	3	4	5	6	7	8
<b>Long-term financial investments, including:</b>	<b>36089</b>	<b>32696</b>	<b>88058</b>	<b>1773</b>	<b>188</b>	<b>188</b>	<b>123959</b>
Shares and contributions to the charter capital	25044	21675	86285				111329
- Bonds							
- Deposits under agreement on society in participation							
- Notes							
- Granted loans	1086	1086	1635	1635	188	188	2533
- Other	9959	9935	138	138			10097
<b>Reserve for devaluation</b>							
<b>Total line 140 f.1</b>	<b>36089</b>	<b>32696</b>	<b>88058</b>	<b>1773</b>	<b>188</b>	<b>188</b>	<b>123959</b>
<b>Short-term financial investments, including:</b>	<b>4334</b>	<b>4334</b>	<b>642</b>	<b>642</b>	<b>2682</b>	<b>2682</b>	<b>2294</b>
-Bonds							
-Notes	281	281			281	281	
-Granted loans	2261	2261	642	642	646	646	2257
- Deposits under agreement on society in participation							
-Deposit accounts							
- Other short-term financial investments	1792	1792			1755	1755	37
<b>Own shares, bought out from shareholders</b>	<b>2211</b>	<b>2211</b>			<b>2211</b>	<b>2211</b>	
<b>Reserve for devaluation</b>							

<b>Total line 250 f.1</b>	<b>6545</b>	<b>6545</b>	<b>642</b>	<b>642</b>	<b>4893</b>	<b>4893</b>	<b>2294</b>
<b>TOTAL:</b>	42634	39241	88700	2415	5081	5081	126253

(\* Operations, connected with the balance transfer due to the reorganization are excluded.

#### 7.4. Shares and contributions to charter capital

Information about the Company's principal investments in the charter capital of daughter companies, affiliates, and other companies.

Table 10

Name of company	Type of activity	Amount of investments as of 31/12/2002	Share in the charter capital	Share of voting shares	Balance sheet total	Revenues
1	2	3	4	5	6	7
<u>Subsidiary companies</u>						
JSC VladPage	Paging connection	41	75 %		287	748
JSC Vladimirsky taksofon	Local, long distance and international telecom services	93	51 %		1 317	14 557
LLC Mobilkom	Provision of telecommunications services	2 250	100 %		11 255	3 018
LLC Teleport-Ivanovo	Cellular communications, data transmission, sale of telecom equipment	151	100 %		2 954	4 909
LLC Telecom-Terminal	Sale, servicing, maintenance of terminal equipment	261	100 %		942	798
LLC Telecom-Stroy	General construction works, public catering	510	100 %		3 956	9 342
JSC Telecom	Deployment of a modern telecommunications network	486	51 %		16 998	19 774
LLC PVP Svyaz-Service-Irga	Telecommunication s facilities maintenance and service	16	70 %		855	2 434
JSC Moteko	Communications services	87 354	51%		33 094	32 680
<b>Total: subsidiary companies</b>	X	<b>91 162</b>	X	X	тыс. руб.	

<u>Affiliates</u>						
Belgorod Cellular communications	Cellular communications AMPS-800 MHz	1 749	30 %		8 873	8 262
-LLC Bryansk cellular networks	Cellular communications NMT-450 MHz	277	34 %:		7 954	18 641
JSC Vladimir - Teleservice	Communications services	11	50 %		5 334	12 581
Telecommunications association CCHR	Coordination of telecommunications organizations activity	29	29 %		452	117
LLC Trunksvyaz	Mobile telecommunications	25	25 %		496	266
JSC Cellular communications of Black Soil region	Cellular communications NMT-450 MHz	15	21 %		42687	79260
JSC TeleRossVoronezh	Communications services	585	50 %		8 628	15 132
JSC Gazenergobank	Banking services	6 820	31 %		13 815	34 352
JSC Kaluga cellular connection	Cellular communications	8	42 %		17 471	18 905
LLC Rating	Radio and air and cable TV broadcasting	36	29 %		279	1 073
JSC Ryazan cellular connection	Cellular communications NMT-450 MHz	12	40 %		11 503	16 619
JSC Telecommunications company Rinfotel	Data transmission services	25	26 %		6 109	8 156
Contribution into charter capital Smolensk Cellular communications	Cellular communications AMPS-800 MHz	2 349	40 %		9 636	1 722
LLC Tvertelecom	Development of telecommunication networks	50	26 %		63 226	83 532
JSC Tver cellular connection	Cellular communications NMT-450 MHz	12	40 %		20 104	28 449
<b>Total: affiliates</b>	X	<b>12 005</b>	X	X	thous.	

					rubles	
<u>Financial investments in other organizations</u>	X	<b>8 162</b>	X	X	thous. rubles	
Reserve for devaluation	X		X	X	X	X
<b>Total: financial investments in charter capital</b>	X	<b>111 329</b>	X	X	<b>thous. rubles</b>	

Other investments were made in Russian companies, which are involved mainly in provision of telecommunications services, design, construction, and upgrade of telecommunications facilities, information and directory services, construction works and other types of activity.

The Company's share in the charter capital of these enterprises does not exceed 20%.

Income, received in form of dividends from long-term financial investments is recorded in item «Revenue from participation in other organizations» in the income statement in the amount of 562 thous. rubles (in 2001 - 363 thous. rubles).

7.5. Loans granted to other entities

Structure of granted loans

Table 11

Name of borrower	Lent amount as of 31.12.2002	Maturity	Annual interest rate
1	2	3	4
<b>Short-term loans</b>			
- Tver taksofon	1 445	31.12.01	25 %
- JSC Krestyanin	753	26.03.02	
- LLC Skat-69	59	01.12.02	25 %
<b>Total: short-term loans</b>	<b>2 257</b>	<b>X</b>	<b>X</b>
<b>Long-term loans</b>			
- JSC Krestyanin	250	01.02.04	
- LLC SO Spartak	1 124	01.02.04	25 %
- LLC CenterBrokerleasing	1 159	31.05.05	25 %
<b>Total: long-term loans</b>	<b>2 533</b>	<b>X</b>	<b>X</b>

## 7.6. Inventories

Inventories structure:

Table 12

<b>Inventories group</b>	<b>Balance as of 01.01.2002</b> (taking into account merged companies)	<b>Balance as of 31.12.2002</b>
<b>1</b>	<b>2</b>	<b>3</b>
Cable	81 506	133 831
Fuel	6 366	9 210
Spares	77 839	70 326
Materials delivered to external parties for processing	2 504	1 274
Construction materials	38 272	37 577
Tools and household appliances	28 304	53 358
Other materials	183 441	176 209
Deviation in the cost of material values	553	3 796
<b>Total (line 211 F 1)</b>	<b>418 785</b>	<b>485 581</b>

No inventories put in pledge as of 31.12.2002.

## 7.7. Account receivable

Accounts receivable structure as of 31.12 2002:

Table 13

Category of user	Accounts receivable with the repayment period of over 12 months from the reporting date (line 231 column 5 form 1)	Accounts receivable with the repayment period of less than 12 months from the reporting date		
		Accounts receivable, total	Provisions for doubtful debts	Accounts receivable less doubtful debt provisions (line 241+line 242 column 5 form 1)
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Settlements with individuals (for telecommunications services)		628 869	52 257	576 612
Settlements on compensation for expenses on benefits provided (on telecommunications services)		596 929	368 831	228 098
Settlements with budget organizations (on telecommunications services)		148 830	57 029	91 801
Settlements with other organizations (on telecommunications services)		395 194	64 464	330 730
Settlements on non-core activities		47 273	14 094	33 179
<b>Total: accounts receivable</b>		<b>1 817 095</b>	<b>556 675</b>	<b>1 260 420</b>

7.8 Other debtors

Table 14

Category	Accounts receivable with the repayment period of over 12 months from the reporting date (line 235 column 5 form 1)	Accounts receivable with the repayment period of less than 12 months from the reporting date		
		Accounts receivable, total	Provisions for doubtful debts	Accounts receivable less doubtful debt provisions (line 246 column 5 form 1)
1	2	3	4	5
Settlements on taxes and duties		130 606	X	130606
Settlements with accountable persons	X	1 016	X	1016
Settlements with employees on other operations	4 810	29 104	X	29104
Insurance payments		42 707	X	42707
Settlements on claims	1 093	10 169	X	10169
Other		104 023	0	104 023
<b>Total: accounts receivable</b>	<b>5 903</b>	<b>317 625</b>	<b>0</b>	<b>317 625</b>

## 7.9. Capital and reserves

### Change of the capital structure due to the reorganization

As of the reporting date, the Company increased retained profit of the previous years due to the necessity to register a new amount of the charter capital not to exceed the sum of the charter capitals of the merged companies.

In addition, an additional capital amount, meant for fixed assets revaluation, was allocated from retained profit of the previous years to be transferred to the regional subsidiaries for the accurate accounting for transactions involving flow of fixed assets.

#### 7.9.1. Charter capital

As of December 31, 2002, the Company's charter capital amounted to 631 199 896,5 rubles and is calculated as a sum of the nominal value of placed shares and consists of:

*Table 15*

Shareholders	Number of ordinary shares	Share nominal value (rub.)	Sum of nominal value of ordinary shares (thous.rub.)	Number of preferred shares	Share nominal value (rub.)	Sum of nominal value of preferred shares (thous.rub.)	Total nominal value of shares (thous.rub.)
1	2	3	4	5	6	7	8=4+7
Legal entities, including:	1451338875	0.3	435401.6	416652412	0,3	124995,7	560397,3
JSC Svyazinvest	799867813	0,3	239960.3				239960,3
JSC ING BANK (Eurasia)	109375964	0,3	32812.8	117321079	0,3	35196,3	68009,1
JSC Depositary & clearing company	116645363	0,3	34993.6	94141429	0,3	28242,4	63236,0
Russian Federal Property Fund	138984274	0,3	41695.3	0		0	41695,3
Individuals	126667958	0.3	38000.4	109340410	0.3	32802.1	70802.5
Company employees							
Other individuals							
<b>Total</b>	<b>1578006833</b>	<b>X</b>	<b>473402.0</b>	<b>525992822</b>	<b>X</b>	<b>157797,8</b>	<b>631199,8</b>

Within 2002, an additional issue of 1 114 033 833 ordinary shares and 371 334 822 class A preferred shares was made. The nominal value of additionally issued shares totals 445 610 596.5 rubles.

At its meeting in 2002, JSC CenterTelecom Board of Directors decided about an additional issue of 1 114 052 729 ordinary shares and 371 366 966 class A preferred shares by converting shares of the merged companies. The nominal value of additionally issued shares totals 445 625,9 thous.rubles.

State registration of the amendments to the Charter was completed in 2003. However, the alteration of the charter capital was deemed to be a material event, confirming existing economic circumstances at the reporting date, under which the Company was operating; and in accordance with Accounting rules 7/98 «Events after the reporting date» it was also entered in the enclosed reports as of December 31, 2002 (see also p.15 «Events, which took place after December 31, 2002» of the present Notes).

After the merger, the Company's charter capital became smaller than the sum of charter capitals of the merged companies and the core company before the merger. This reduction can be accounted for by:

- *capital gains of the core company, which resulted from the conversion of merged companies shares into the shares of the core company.* )

The value of *retained profit of the previous years* was adjusted (increased) by the excess of the nominal value of merged companies shares over the nominal value of the additional share issue for the conversion during the reorganization.

### **7.9.2 Own shares**

Within 2002, JSC CenterTelecom bought out 42 250 ordinary shares at the price of 38.82 rub. per share and sold 97 390 ordinary shares and 110 preferred (preference) shares at the price of 84.68 rub per share.

As of December 31, 2002, the Company did not have any own ordinary or preferred shares at its account.

### **7.9.3 Distribution of profit**

Planned distribution of profit of the super-regional united company for 2002 to be reviewed at the annual shareholders meeting in 2003:

*Table 16*

	Amount, thous.rubles
<b>I. Capital before distribution of profit of the reporting year</b>	
1. Charter capital	631 200
2. Reserve capital	27 838
3. Additional capital	6 405 534
4. Profit of previous years	5 901 703
5. Profit of the reporting year	1 084 300
6. Total capital before distribution of profit	14 050 575
<b>II. Channels of the reporting year profit distribution.</b>	
1. Profit allocated for the reserve formation	
2. Profit earmarked for financing Employee Share-	

Ownership Fund of the Company (if its formation is envisaged by founding documents)	3 722
3. Profit earmarked for dividends	260 000
4. Results of the reporting year profit distribution	263 722
<b>III. Capital after distribution of profit</b>	
1. Charter capital	631 200
2. Reserves	31 560
3. Additional capital	6 405 534
4. Profit of previous years	6 722 281
<b>IV. Growth (reduction) of capital in related to retained profit of the reporting year.</b>	820 578

Distribution of profit of the reporting year is subject to approval by the Company's annual general meeting of shareholders.

#### **7.9.4 Reserves**

According to the Charter, the Company should set up reserves to the amount of 5 percent of the Company's charter capital.

In view of the results of the reporting year profit distribution, the Company's Board of Directors plans to allocate to reserves an amount of 31 560 thous. rubles.

Reserves growth will be shown as usage of retained profit within the year, which is over on December 31, 2003, after it has been approved at the annual Shareholders' General Meeting of the Company.

#### **7.9.5 Dividends**

At the 2002 meetings of shareholders of JSC CenterTelecom and the merged companies, which were joined to it due to the reorganization, there were approved the following dividend amounts for the year, ending December 31, 2001:

Name of shares	Dividends (total, with ataking into account merged companies, thous.rub.	<i>Table 17</i>
		Dividends (core company), thous.rub.
<b>1</b>	<b>2</b>	<b>3</b>
Class A preferred shares	108427	11908
Class B preferred shares	569	470
Ordinary shares	109429	11742
<b>Total</b>	<b>218425</b>	<b>24120</b>

Dividends for 2001 are shown in the financial reports for the year, which ended on December 31, 2002.

Dividends, payable on ordinary and Class A preferred shares in 2001 and 2002 in the regions, are presented in the following table.

*In rubles*

Name of region	2001		2002	
	Ordinary shares	(Class A) preferred shares	Ordinary shares	(Class A) preferred shares
Belgorod	0.84	3.07	1.96	5.89
Bryansk	0.23	0.75	0.66	1.97
Vladimir	0.02945	0.110866	0.054759	0.164278
Voronezh	2.83	12.16	3.17	9.51
Ivanovo	0.02353	0.06605	0.02365	0.07095
Kaluga	1.327	5.388	1.644	4.931
Kostroma	0.78	2.9026	0.21	0.62
Kursk	0.3939	1.388	0.55173	1.6552
Lipetsk	0.13	0.42	0.17	0.51
Moscow	0.026	0.077	0.03305	0.14189
Orel	0.8321	0.21733	1.201	0.4
Ryazan	0.17	0.31	0.247	0.742
Smolensk	0.245	0.65	0.445	1.34
Tambov	0.981	2.663	1.48	4.43
Tver	31.87	99.94	38.17	114.52
Tula	0.0143	0.049	0.0094	0.0283
Yaroslavl	1.65	4.78	2.14	5.93

The Company's Board of Directors suggested to pay the dividends for 2002 in the following amount:

*Table 18*

Name of shares	Number of shares	Dividend per share (rub.)	Total amount of dividends (rub.)
1	2	3	4
Class A preferred shares	525 992 822	0,206143	108 430 000
Ordinary shares	1 578 006 833	0,096052	151 570 000
<b>Total</b>	<b>2 103 999 655</b>		<b>260 000 000</b>

In the enclosed reports, the dividends for 2002 are not shown. They will be shown as retained profit usage within the year, ending on December 31, 2003 after their approval at the annual general meeting of shareholders of the Company.

## 7.10 Credits and loans

Structure of liabilities:

Table 19

	As of 01.01.02				As of 31.12.02	
	Short-term liabilities (line 610, f.1)		Long-term liabilities (line 510, 520 f.1)		Short-term liabilities (line 610 f.1)	Long-term liabilities (line 590 f.1)
	Total, taking into account merged companies	Base organiza- -tion	Total, taking into account merged companies	Core compan y		
1	2	3	4	5	6	7
<b>Bank credits</b>	<b>1 049 886</b>	<b>489 589</b>	<b>381 017</b>		<b>1 611 849</b>	<b>985 046</b>
- Branch of GUTA- Bank GUTA- MGTS	218 589	218 589			210 063	227 882
- JSCB Promsvyazbank	100 000	100 000			233 510	
- Srednerussky Bank of Sberbank of Russia					144 127	
- Vneshtorgbank	28 901		52 980		139 354	357 260
- Sberbank of Russia Kaluga Branch	136 000	116 000	20 000			5 136
- Vnesheconombank			149 206		6 332	199 478
- Sberbank of Russia	257 910		104 010		333 508	144 500
- Raiffeisenbank			30 618			25 706
- JSCB MIB	25 134				31 693	
- JSCB Krosna- Bank	63 449				15 670	
- Sberbank of Russia Tambov Branch	18 971				25 000	
- Severny Bank of RF	41 810				51 900	
- CB Ogni Moskv y	25 000	25 000			18 000	
- Bryansk Narodny Bank					20 000	
- Impeksbank					30 000	
- JSC UralSib					53 000	
- Other	134 122	30 000	24 203		299 692	25 084
<b>Supplier credits (with an allowance for %)</b>			<b>821 714</b>	<b>33 095</b>		<b>695 323</b>
- Iskratel			227 903	33 095		95 297

- Alkatel			115 464			176 843
- Iskrauraltel			6 813			10 143
- Mashpriborintorg			147 714			151 934
- JSC RTK-Leasing						83 013
- Siemens			109 301			68 602
- Vnesheconombank			29 091			36 361
- Vado-Telecom			23 835			34 019
- Other			161 593			39 111
<b>Bond issue</b>			<b>600 000</b>	<b>600 000</b>	<b>636 184</b>	<b>600 000</b>
<b>Loans from the Group companies</b>			<b>37 694</b>		<b>25 594</b>	<b>30 729</b>
- JSC Svyazinvest			37 694		25 594	30 729
<b>Credits from regional administrations</b>						
<b>Settlements with suppliers and lease contractors</b>						<b>533 316</b>
<b>Settlements on a long-term part of taxes</b>						<b>33 890</b>
<b>Notes drawn</b>			<b>7 886</b>			<b>7 886</b>
<b>Other loans</b>	<b>38 658</b>		<b>463 127</b>		<b>107 434</b>	<b>366 626</b>
- Vnesheconombank	6 802		126 982		21 974	107 476
- Individuals	6 038		117 807		2 054	117 547
- Ericsson			30 240		5 983	
- LG Electronics			31 317			31 317
- Finance Department of the regional administration	4 000					
- Promtekhmontazh	2 500				2 500	
- Veksely Center Service	2 490					
- Alkatel					6 388	
- Other	16 828		156 781		68 535	110 286
<b>Total credits and loans (except for</b>	<b>1 088 544</b>	<b>489 589</b>	<b>1 489 724</b>	<b>600 000</b>	<b>2 381 061</b>	<b>2 557 493</b>

<b>supplier credits (line 610, line 590 f. 1)</b>						
<b>Total supplier credits</b>			<b>821 714</b>	<b>33 095</b>		<b>695 323</b>
<b>Total liabilities</b>	<b>1 088 544</b>	<b>489 589</b>	<b>2 311 438</b>	<b>633 095</b>	<b>2 381 061</b>	<b>3 252 816</b>

On October 17, 2001 the Company registered series 01 issue of interest bearing documentary bearer bonds with coupon attached having the nominal value of 1 thous.rubles per bond. Bonds carry 5 coupons each. Payments on the first coupon are effected on the 95<sup>th</sup> day from the bond placement starting date. The rest of the coupon payments are made on the 186<sup>th</sup> day, 368<sup>th</sup> day, 550<sup>th</sup> day, 732<sup>th</sup> day from bond placement starting date respectively. Coupon interest rate is determined at an annual interest rate of 22 % on the first coupon, 21,5 % - on the second, 20,5% - on the third. Redemption of bonds is set on November 2003, 732 days after their placement date.

On June 25, 2002, the Company registered the series 02 issue of interest bearing documentary bearer bonds coupon attached with the nominal value of 1 thous. rubles each bond. The bonds have six coupons. Payments on the first coupon are effected on the 91<sup>st</sup> day from the bond placement starting date. The rest of the coupon payments are effected on the 273d day, 456<sup>th</sup> day, 638<sup>th</sup> day, 821<sup>st</sup> day, 1003d day from the bond placement starting date. Coupon interest rate is determined at an annual interest rate of 20 % on the first and second coupon, 18 % - on the third and fourth coupon, 16 % - on the fifth and sixth coupon. Bonds are to be withdrawn in August 2005, 732 days after their placement date.

As of December 31, 2002, the Company had a debt of 371 621 thous.rubles to Vnesheconombank. These liabilities are shown in the Company's financial statements in line 611 «Credits to be repaid within 12 months from the reporting date» in the amount of 6 332 thous.rubles, in line 612 «Loans to be repaid within 12 months from the reporting date» - 21 974 thous. rubles, in line 511 «Bank credits to be repaid in over 12 months from the reporting date» - 199 478 thous. rubles, in line 520 «Other long-term liabilities» - 36 361 thous. rubles, in line 512 «Loans to be repaid in over 12 months from the reporting date» - 107 476 thous. rubles.

As of December 31, 2002 the Company's following subsidiaries: Voronezhsvyazinform, Belsvyaz, Orel and Ryazan subsidiaries had a foreign currency debt in the amount of EUR9,473,979 to Vnesheconombank. The given liabilities are shown in the Company's reporting (in lines 511, 512, 612 of the balance sheet) in the amount of 130 194 thous. rub. Liabilities are also shown in line 511 «Bank credits to be repaid in over 12 months from the reporting date» – 30 386 thous.rub., in line 512 «Loans to be repaid in over 12 months from the reporting date» – 58 252 thous.rub., in line 612 «Loans to be repaid within 12 months from the reporting date» - 41 556 thous.rub. These debt should be repaid by the Company in either foreign currency or Russian Rubles at the exchange rate as of the payment date subject to contract terms; and the choice of currency is at the Company's discretion in those cases, where the choice of repayment currency is specified in the contract. In this case, the Company plans to pay the whole debt in Russian Rubles. On the basis of the RF CB exchange rate as of the reporting date (December 31, 2002), the liabilities amount is totaled up to 313 682 thous. rub.

Bryanskinform - branch of JSC CenterTelecom as of December 31, 2003 had indebtedness to Vnesheconombank, expressed in foreign currency in the amount of 674 276 Euro. The given liabilities are shown in the Company's reporting in terms of accounts payable (in lines 520 and 621 of the balance sheet) in the amount of 15 105 thous.rub.; including in line 520 «Other long-term liabilities» -10 070 thous.rub., in line 621 «Suppliers and contractors»- 5 035 thous. rub. On the basis of the RF CB exchange rate as of the reporting date (December 31, 2002), the liabilities amount totaled 22 325 thous. rub.

Schedule of long-term loans and credits repayment as of December 31, 2002:

Table 20

Amount (thous. rubles)	
2004	695 253
2005	959 394
2006	184 279
2007	143 475
<b>Total long-term borrowed funds (line 510 f. 1)</b>	<b>1 982 401</b>

### 7.11 Accounts payable

#### 7.11.1 Indebtedness on taxes and dues

Table 21

Types of installments to the budget, contributions to off -budget funds	Indebtedness on taxes and dues		
	As of 01.01.2002		As of 31.12.2002
	Total, taking into account merged companies	Core company	
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Settlements on value-added tax	104 274	1 414	164 730
Settlements on profit tax	78 175	0	135 627
Settlements on property tax	55 158	10 635	73 594
Settlements on income tax of individuals	25 612	0	29 594
Settlements on sales tax	14	1	35 033
Settlements on social insurance and welfare	70 210	170	73 685
Other	19 123	123	4 309
<b>TOTAL (line 625 + line 626 f. 1) :</b>	<b>352 566</b>	<b>12 343</b>	<b>516 572</b>

Other long-term liabilities shown in line 520 f.1 include indebtedness to the budget on the payment restructuring in the amount of 33 890 thous. rub., including VAT 31908 thous.rub., profit tax over the transitory period -1 982 thous.rub.

### 7.11.2 Structure of other accounts payable

Table 22

Types of settlements	Amount of accounts payable		
	As of 01.01.2002		As of 31.12.2002
	Total, taking into account merged companies	Core company	
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
Settlements on deferred taxes	130 428	0	278 003
Settlements with respect to R&D	27 549	0	2 637
Settlements with the personnel	1 070	223	5 587
Settlements on insurance	2 250	0	2 219
Settlements on claims	653	8	71
Settlements with agents (brokers, agents)	1 539	42	1 477
Other settlements with various creditors (*)	114 485	6 266	306 297
<b>TOTAL (line 628 form 1):</b>	<b>277 974</b>	<b>6 539</b>	<b>596 291</b>

(\* - See also paragraph 7.10)

## 8. NOTES TO PROFIT AND LOSS STATEMENT

### 8.1. Revenues from ordinary recurrent activities

Information on revenue from sale of goods, products, works, services (less VAT, excise duties and similar mandatory payments), costs of sold goods, products, works and services:

Table 23

Structure of revenue from sales of services (goods, products)	2002	
	Over the reporting period (*)	With an allowance for affiliated organizations (**)
1	2	3
Inter-urban and trunk line telephone service	2 552 651	7 629 893
Urban and rural telephone service	2 350 259	6 763 622
Radio service, broadcasting, television, satellite service	9 850	19 846
Wireline broadcasting	129 102	465 796
Wireless radio communications	36 471	352 088
Income from new telecommunications services	33 315	380 173
Other communications services	170 032	404 833
Income from other sales	84 645	373 016
<b>TOTAL (line 010 f.2):</b>	<b>5 366 325</b>	<b>16 389 267</b>

(\* - Core company for the period from 01.01.2002 till 31.12.2002 and merged companies for the period from the reorganization date till 31.12.2002

(\*\* - Core and merged companies for 2002 and 2001 respectively.

### 8.2. Information about costs

Information about costs of sold goods, products, works, services:

Table 24

Types of expenses	2002		2001
	Over the reporting period (*)	Taking into account merged companies (**)	Taking into account merged companies (**)
1	2	3	4
Payroll expenses t	1 344 010	4 041 131	3 294 816
Social needs allocations	478 799	1 395 196	1 170 574
Fixed assets depreciation	274 657	1 138 809	1 042 378
Material expenses	1 039 367	2 143 739	1 227 388
Expenses on JSC Rostelecom	491 263	1 390 196	1 085 321
Taxes, included in cost value	80 534	206 536	144 711
Installments to the scientific research fund	15 089	33 957	132 850
Other expenses	546 949	1 782 355	1 896 741
<b>TOTAL (line 020+030+040 f.2):</b>	<b>4 270 668</b>	<b>12 131 919</b>	<b>9 994 779</b>

(\* - Core company for the period from 01.01.2002 till 31.12.2002 and merged companies for the period from the reorganization date till 31.12.2002

(\*\* - Base and merged companies for 2002 and 2001 respectively.

### 8.3. Operating income and expenses

Structure of operating income:

Table 25

Description	2002		2001
	Over the reporting period (*)	Taking into account merged companies (**)	Taking into account merged companies (**)
1	2	3	4
Income from joint activity	542	5 979	2 562
Income from sales and other fixed assets retirement	5 329	32 306	14 702
Income from sales and other retirement of other assets	338 023	577 152	13 283
Other operating income	32 831	47 350	60 164
<b>TOTAL (line 090 f.2)</b>	<b>376 725</b>	<b>662 787</b>	<b>90 711</b>

(\* - Core company for the period from 01.01.2002 till 31.12.2002 and merged companies for the period from the organization date till 31.12.2002

(\*\* - Core and merged companies for 2002 and 2001 respectively.

Structure of operating expenses:

Table 26

Description	2002		2001
	Over the reporting period (*)	Taking into account merged companies (**)	Taking into account merged companies (**)
1	2	3	4
Expenses on participation in other organizations	2	36	
Expenses on participation in joint activity	255	3 168	
Expenses on the payment for credit organizations services	52 318	88 592	39 285
Insurance expenses	1 711	12 043	
Expenses on assets sale and other retirement	338 149	366 508	44 372
Provisions for doubtful debts	278 659	643 989	15 367
Reserves for depreciation in the market value of securities			
Expenses on taxes and dues	74 106	291 238	231 709
Other expenses	18 589	274 144	30 220
<b>TOTAL (line 100 f.2):</b>	<b>763 789</b>	<b>1 679 718</b>	<b>360 953</b>

(\* - Core company for the period from 01.01.2002 till 31.12.2002 and merged companies for the period from the reorganization date till 31.12.2002

(\*\* - Core and merged companies for 2002 and 2001 respectively.

#### 8.4. Non-operating income and expenses

Structure of non-operating income:

Table 27

Description	2002		2001
	Over the reporting period (*)	Taking into account merged companies (**)	Taking into account merged companies (**)
1	2	3	4
Fines, late payment charges, claims amounts for the breach of contractual terms	7 674	20 527	19 674
Receipts for the indemnity of incurred losses	4 136	17 007	4 493
Profit of the previous years, revealed in the reporting period	9 740	34 948	46 798
Differences in rates of exchange	6 958	37 712	120 982
Sum differences	5 117	11 372	2 334
Cost of property, revealed as a result of inventory	960	30 917	1 931
Funds received free of charge	15 502	21 218	16 646
Other non-operating income	11 105	79 269	50 426
<b>TOTAL (line 120 f.2)</b>	<b>61 192</b>	<b>252 970</b>	<b>263 284</b>

(\* - Core company for the period from 01.01.2002 till 31.12.2002 and merged companies for the period from the reorganization date till 31.12.2002

(\*\* - Core and merged companies for 2002 and 2001 respectively.

Structure of non-operating expenses:

Table 28

Description	2002		2001
	Over the reporting period (*)	Taking into account merged companies (**)	Taking into account merged companies (**)
1	2	3	4
Fines, late payment charges, claims amounts	484	19 934	7 909
Indemnity of incurred losses	116	1 840	338
Losses of the previous years, revealed in the reporting year	34 581	67 795	30 371
Differences in rates of exchange	86 514	308 986	155 963
Sum differences	21 728	64 335	63 994
Cost of property, loss of which was revealed as a result of inventory		46	19

Write-off of accounts receivable, for recovery of which law suits can not be filed due to expiry of limitation			5 057
Write-off of accounts receivable, for recovery of which law suits can not be filed due to expiry of limitation and other bad debts	4 505	45 194	51 901
Charity and sponsorship activity	68 765	94 552	45 192
Remuneration to the Board of Directors	1 797	46 899	22 743
Expenses on the securities service			
Payments	42 826	298 386	53 600
Other	115 511	350 353	304 324
<b>TOTAL (line 130 f.2):</b>	<b>376 827</b>	<b>1 298 320</b>	<b>741 411</b>

(\* - Core company for the period from 01.01.2002 till 31.12.2002 and merged companies for the period from the reorganization date till 31.12.2002

(\*\* - Core and merged companies for 2002 and 2001 respectively.

#### 8.5. Profit tax and other similar mandatory payments

Table 29

Description	2002		2001
	Over the reporting period *)	Taking into account merged companies **)	Taking into account merged companies **)
1	2	3	4
Profit tax ***	62 301	519 850	634 638
Penalty assignments to the budget	896	11 364	18 264
Penalty assignments to off-budget funds	1 452	26 026	922
Other			9 220
<b>Total (line 150 f.2)</b>	<b>64 649</b>	<b>557 240</b>	<b>663 044</b>

(\* - Core company for the period from 01.01.2002 till 31.12.2002 and merged companies for the period from the reorganization date till 31.12.2002

(\*\* - Core and merged companies for 2002 and 2001 respectively.

\*\*\* Including: profit tax, based on transitory period

### 8.6. Extraordinary income and expenses

Structure of extraordinary income:

Table 30

Description	2002		2001
	Over the reporting period (*)	Taking into account merged companies (**)	Taking into account merged companies (**)
1	2	3	4
Received insurance reimbursements	88	88	10
Cost of values, which left from assets write-off			
Other extraordinary income			70
<b>TOTAL (line 170 f.2):</b>	<b>88</b>	<b>88</b>	<b>80</b>

(\* - Core company for the period from 01.01.2002 till 31.12.2002 and merged companies for the period from the reorganization date till 31.12.2002

(\*\* - Base and merged companies for 2002 and 2001 respectively.

Structure of extraordinary expenses:

Table 31

Description	2002		2001
	Over the reporting period (*)	Taking into account merged companies (**)	Taking into account merged companies (**)
1	2	3	4
Cost of lost inventories		55	
Losses from write-off of unfit fixed assets facilities as a result of calamities			2
Other extraordinary expenses			234
<b>TOTAL (line 180 f.2):</b>		<b>55</b>	<b>236</b>

(\* - Core company for the period from 01.01.2002 till 31.12.2002 and merged companies for the period from the reorganization date till 31.12.2002

(\*\* - Core company and merged companies for 2002 and 2001 respectively.

## 9. PROFIT PER SHARE

Basic profit (loss) per share is calculated as a ratio of the basic profit (loss) for the year, ending on December 31, 2002 to an average weighted number of ordinary shares outstanding over the reporting period.

Basic profit (loss) for 2002 is calculated in accordance with the RF Ministry of Finance Decree dated 21.03.00 No29n by reducing (increasing) the reporting period profit (loss), which is left at the disposal of the organization after payments of taxes and other debts, installments to the budget and off-budget funds, by the sum of dividends on preference shares, added to their owners for the reporting period. When calculating base profit (loss) for the reporting period, no allowance is made

for the dividends on preference shares, including cumulative, for the previous reporting periods, which were paid or declared within the reporting period.

## 10. CESSATION OF ACTIVITY

In 2002, no type of activity ceased to exist.

## 11 AFFILIATED PERSONS

*In accordance with the RF Law of March 1991 No 948-I "About the competition and limitation of monopolistic activity in commodity markets", «Affiliated persons are natural persons and legal entities capable to exert influence on the activity of legal entities and (or) physical persons, engaged in entrepreneurship activity». Transactions conducted with affiliated persons include purchase and sale of goods, works, services (including those under the agreements, which envisage performing of obligations through non-monetary means); purchase and sale of fixed and other assets; property rent and lease; transfer of results of R&D; financial operations, including granting loans and participation in charter (jointly contributed) capital of other organizations; provision and receipt of guarantees and pledges; other operations).*

In its financial and economic activity, JSC CenterTelecom concluded deals with the organizations, which are considered to be affiliated persons. In addition to daughter companies and affiliates, enlisted in paragraph 7.3 «Financial investments» of these Notes, the following natural persons and legal entities can be considered to be affiliated to the Company:

Table 32

<b>Name of affiliated person</b>	<b>Character of relations with affiliated person *</b>	<b>Types of deals with affiliated person</b>	<b>Value of deals in 2002, thous. rub.</b>	<b>Accounts receivable (payable) as of 31.12.2002, thous. rub. *</b>	<b>Method of pricing for deals with affiliated person</b>
1	2	3	4	5	6
JSC Moscow metropolitan telephone network (JSC MGTS)	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom owns over 20 % of voting shares of JSC MGTS	Agreement dated 17.01.02. No 40-DO about reservation and rent of a place in telephone ducts	551	-54	Tariff
JSC Moscow metropolitan telephone network JSC MGTS	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom , owns over 20	Agreement dated 17.01.02. No 41-42-DO about reservation and rent of a place in telephone	458	-14	Tariff

	% of voting shares of JSC MGTS	ducts			
JSC Moscow metropolitan telephone network JSC MGTS	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC MGTS	Agreement dated 31.01.02 No 157-DO about the rent of SAM modules	5	0	Tariff
JSC Moscow metropolitan telephone network JSC MGTS	Same	Agreement dated 11.02.02 No 182-DO, 183-DO about the rent of transportation means	122	+30	Average price in Moscow
JSC Moscow metropolitan telephone network JSC MGTS	Same	Agreement about 11.03.2002 No 510/02-DO about the rent of a non-residential premise	67	0	Average price in Moscow
JSC Moscow metropolitan telephone network JSC MGTS	Same	Agreement dated 26.04.02 No 605/02-DO about reservation and rent of a place in telephone ducts	102	-9	Tariff
JSC Moscow metropolitan telephone network JSC MGTS	Same	Agreement dated 06.05.02 No 704/02-DO about spare parts manufacture	268	134	Costs calculation

JSC Moscow metropolitan telephone network JSC MGTS	Same	Agreement dated 10.06.02 No 762/02-DO about providing access to public network	15		Tariff
JSC Moscow metropolitan telephone network JSC MGTS	Same	Agreement dated 12.08.02 No 993/02-DO on the rent of telephone ducts	240	-24	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Agreement dated 25.003.02 No 432/02-DO on provision telephone services	29	+1	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Agreement 2100/97-49 dated 26.03.1997 on providing long-distance and international telecom services	64 673	-5 490	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Agreement No 158/3 dated 10.04.1997 on settlements on operations related to participation in the unified provision of long-distance and international telecom services	65 073	-13 962	Tariff

JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Acc. 95 dated 22.10.02 on agreeing construction volumes	3	3	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Agreement No 8 dated 05.03.97 on lease of circuits	41332	-3 203	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Agreement No 8 dated 05.03.97 on maintenance of equipment	2825		Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Agreement No 67 dated 28.09.01 on using fiber-optic cable	576		Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Agreement 154/3 about lease of channels	61944	-5 031	Tariff

JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Agreement No 60 dated 01.01.99 on provision of digital channels	1991		Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Service agreement	117 397	-5 148	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Agreement 2100/97-48 dated 27.03.97 on participation in the technological process	70 984	-6 027	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting shares of JSC Rostelecom	Telecom services	42 470	-3 883	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC CenterTelecom, owns over 20% of voting	Agreements on telecommunications services of the Tula branch	69 017	-6 562	Tariff

	shares of JSC Rostelecom				
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Rostelecom	Agreements 2100/97-52 dated 24.03.97, 2100/2001-163CC, 13/42-99 dated 15.03.99	46 255	-5 099	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Rostelecom	Agreement about joint use of network resources	33 702	-4 785	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Rostelecom	Agreement 87 dated 30.01.01, 58 dated 01.01.99, 5 dated 05.03.99	38 747	-3 129	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Rostelecom	Participation in the unified technological process of provision of telecommunications services	80 497	-6 214	Tariff

	Rostelecom				
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Rostelecom	Agreements concluded by Voronezhsvyaz inform	117 427	-11 467	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Rostelecom	Agreement No 155/3 dated 10.04.97	42 115		Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Rostelecom	Agreements on the lease of channels for Moscow branch	491 221	-168 848	Tariff
JSC Rostelecom	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Rostelecom	Agreement No 2100/97-53 dated 31.07.97, 2100/2000-50 dated 14.12.2000, 683/1 dated 18.10.1999, 229 dated 29.09.00	48 593	-3 939	Tariff

	Rostelecom				
JSC Svyazinvest	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom	Agreement No 559 dated 24.02.98 on lending	30 537	-8 094	Contractual
JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement dated 15.10.02 on design work	487	-244	Contractual
JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement 03-128 dated 13.08.02, 2297 dated 19.07.02, 1362 dated 19.11.02	23		Contractual
JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement on service rendering	33		Contractual

JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement 3602127 dated 03.07.02 on design works	392	-135	Contractual
JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement No 3201135-O dated 12.11.01 on the upgrade of urban telephone networks	478	-143	Contractual
JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement 409-02/8 dated 22.10.02 «Unified general plan of network development» 1 st stage	216	-	Contractual
JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement No 7.10 dated 04.03.02 about assignment of temporary signaling codes for points at switches being installed.	259	-	Contractual

JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement on the lease of long-distance and international channels	100 390	-8 098	Contractual
JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement No 501-02 dated 19.09.02 on design work execution	381	174	Contractual
JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement 919/02-DO dated 16.07.02 on design work execution	445		Contractual
JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement 3702151 dated 05.08.02 and without number dated 31.07.02	1462	16	Contractual

JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreement on design work execution		315	Contractual
JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Agreements MGTS-7/163 dated 16.10.02, MGTS/112 dated 22.09.01, 5702025 dated 15.02.02, 7000216 dated 14.11.00	734		Contractual
JSC Gyprosvyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Gyprosvyaz	Lease agreement	253	-157	Contractual
JSC RTK-Leasing	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC RTK-Leasing	Agreement on equipment lease	29 168	-29 168	Contractual

JSC RTK- Leasing	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC RTK- Leasing	Lease; Tambov branch	73 412	-73 412	Contractual
JSC RTK- Leasing	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC RTK- Leasing	Agreement No 558-204/02 dated 02.10.02, 559-204/02 dated 04.10.02, 560-204/02 dated 07.10.02 on the purchase of equipment for a facility of included in the capital construction plan	12 168	-12 168	Contractual
JSC RTK- Leasing	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC RTK- Leasing	Agreements concluded by Voronezhsvyaz inform	204 795	-245 754	Contractual
JSC RTK- Leasing	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC RTK- Leasing	Agreement 256 on supply of equipment	145 799	-145 799	Contractual

JSC RTK- Leasing	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC RTK- Leasing	Equipment supply	117625	-117625	Contractual
JSC RTK- Leasing	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC RTK- Leasing	Financial lease agreement	37 240	-37 240	Contractual
JSC RTK- Leasing	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC RTK- Leasing	Lease agreements of the Kaluga branch			Contractual
JSC RTK- Leasing	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC RTK- Leasing	Surety No P- 9142 dated 08.10.02 to the RF Savings Bank for the amount of granted credit and interest equal to 631 623 thous. rubles.			Contractual

JSC RTK- Leasing	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC RTK- Leasing	Surety No 04- 143/01/1048- DO dated 27.11.01 for the cost of leased equipment, viz. 67 422 thous. rubles.			Contractual
JSC Rusleasing- Svyaz	JSC Svyazinvest, owning over 20% of voting shares of JSC Center Telecom, owns over 20 % of voting shares of JSC Rusleasing- Svyaz	Agreements 67-1 dated 05.09.02, 67-2 dated 05.09.02, 67-3 dated 05.09.02, 68-1 dated 18.10.02, 68-02 dated 18.10.02, 68-3 dated 21.10.02, 68-4 dated 22.10.02 (amount of issued guarantees posted to off- balance accounts)	10 973	-	Contractual
JSC Moteko	General Director of JSC Center Telecom holds a management post in JSC Moteko	Agreement on cooperation dated 14.11.02			Contractual
JSC Moteko	General Director of JSC Center Telecom holds a management post in JSC Moteko	Agreement dated 17.02.02 No 1685- 1687/02-DO on the lease of telecommuni- cations channels	460	+85	Tariff

\*) type of control or significant influence in accordance with p. 6 of Accounting rules 11/2000

\*\*) Accounts receivable – with the «+» sign, accounts payable – with the «-» sign.

### 13. STATE AID

Table 34

Name of state aid type	Amount
1	2

Funds to finance capital expenditures, related to the purchase, construction or acquisition by any other way of non-current assets (fixed assets, etc.)	4 311
Funds to finance current expenses	0
Budget credits	0
Other state aid	0
<b>TOTAL</b>	<b>4 311</b>

#### **14. NON-STATE PENSION INSURANCE**

The Company concluded agreements with non-state pension funds. Under the present agreement, the Company should be accountable for the payment of fixed installments.

General amounts of installments on non-state pension insurance in 2002 totaled 114 214 thous. rub. (taking into account merged companies). In 2003, it is projected to allocate 126 529 thous. rub.

#### **15. EVENTS, WHICH TOOK PLACE AFTER DECEMBER 31, 2002 (Accounting rules 7/98)**

##### *Amending founding documents*

At an Extraordinary Shareholders' meeting of the Company, which took place on February 20, 2003, charter capital increase of up to 631200 thous. rubles was approved. Registration of the new issue of the Charter issue was completed in 2003. However, charter capital alteration was deemed to be an essential event, confirming the economic circumstances as of December 31, 2002, under which the Company was operating and in accordance with Accounting rules 7/98 «Events after the reporting date» was shown in the financial statements as of the reporting date.

#### **16. CONDITIONAL FACTS OF BUSINESS ACTIVITY (Accounting rules 8/98)**

##### *16.1 Licenses*

Most of the Company's revenues were received from the operations, which were conducted in accordance with the licenses on providing telecommunications services, issued by the Russian Federation Ministry of communications and informatization. Validity terms of the main operating licenses expire in 2007. The Company's executives believe that there are no reasons, for which the licenses should not be renewed, or that any of them should be suspended or revoked.

##### *16.2 Political situation*

Changes in the political situation, legislation, tax and normative regulations influence the economic and administrative activity and operating profitability of JSC CenterTelecom in Russia. The character and frequency of such alterations and related risks, which are as a rule, not covered by insurance, are unpredictable, same as their influence on the Company's future activity and operating profitability.

##### *16.3 Taxation*

Some of the taxes, like profit tax, value-added tax, property tax, road-user tax, sales tax, unified social tax, other taxes, as well as social insurance contributions, established at the federal and regional level are currently effective in Russia.

JSC CenterTelecom's executives believe that tax liabilities are fully reflected in the attached balance sheet. However, there remains the risk that tax bodies will take a substantially different stand on the issues allowing for a possibly ambiguous interpretation, which may significantly affect the Company financial position.

#### ***16.4 Existing and potential risks***

There are no legal proceedings in progress as of the reporting date, in which the Company appears as a plaintiff or defendant, the decisions on which may be taken only in the following reporting periods and which may significantly affect the Company's activities.

In 2001, pursuant to decisions of the Councils of deputies of a number of municipalities of the Moscow region, a tax on profits of enterprises and organizations was levied at the rate of 5% of the taxable profit to be paid to local budgets.

As for the telecommunications companies the applicable laws contain no provisions stipulating formation of the profit tax in the part payable to regional and local budgets by separate operating units of such companies, the following measure were taken by JSC CenterTelecom:

Lawsuits were filed at courts of three municipal formations of the towns of Dubna, Krasnogorsk, Lukhovitsy to repeal the decisions of the Councils of deputies regarding setting of profit tax rate payable to local budgets.

Lukhovitsy municipal court by ruling of 12.02.01 refused to grant the request. The judicial board on civil cases of the Moscow regional court left the decision of the Dubna municipal court unchanged, and the appeal of JSC CenterTelecom was not granted.

By the decision of the Krasnogorsk municipal court dated 24.12.01, the claim was not granted either. The judicial board on civil cases of Moscow regional court cancelled the decision of the Krasnogorsk municipal court and sent the case for retrial to the same court. The Council of deputies of the Krasnogorsk region lodges a protest to the Chairman of Moscow regional court against the decision of the judicial board on civil cases of Moscow regional court. At present, the case is at the supervision level of Moscow regional court.

The Arbitration court of Moscow region tried the case at the lawsuit filed by JSC CenterTelecom about invalidation of the claims of Inspectorate of the Ministry of taxes and duties for the town of Elektrostal about submission of the documents dated 31.08.01 No 05-1046. The claim was granted. Court of appeal appeals left the decision of the first court unchanged. Federal Arbitration Court of Moscow region cancelled the ruling of the court of appeals and sent the case for retrial. On March 31, 2003 a request to reconsider of the Federal arbitration court ruling in course of public prosecutor supervision was submitted the RF Supreme Arbitration Court.

Moscow region Arbitration court tried the case following a lawsuit filed by JSC CenterTelecom to repeal the decision of the Ministry of taxes and duties Inspectorate of the town of Serpukhov dated 26.12.01. The claim was granted. Moscow region Federal Arbitration court of appeals left the ruling of the primary jurisdiction court unchanged.

Moscow region Arbitration court tried the case at the suit of JSC CenterTelecom against the Ministry of taxes and duties Inspectorate of the town of Serpukhov about invalidation of the decisions dated 14.02.02 No 21/04 and 21.03.02 No 55, requirements about tax profit payment to the local budget dated 14.02.2002. The claim was met.

Moscow region Arbitration court considered the case at the suit of the Ministry of taxes and duties Inspectorate of the town of Serpukhov against JSC CenterTelecom about exaction of penalty for non-payment of profit tax to the local budget. The claim was dismissed.

The Company filed an appeal against the court ruling.

The Arbitration court of the Tambov region handed out a decision refusing to the request made by the Inspectorate of Ministry of taxes and duties for Tambov region to recover from JSC Elektrosvyaz of the Tambov region a debt on VAT in the amount of 4000000 rubles and penalty in the amount of 2243000 rubles. Courts of appeals cancelled the ruling and returned the case for retrial.

On June 17, 2002, Arbitration court of the Tambov region made the decision to dismiss the claim of the Inspectorate of Ministry of taxes and duties. Appeal instance cancelled the ruling and the case was sent for retrial.

On December 17, 2002, the Arbitration court refused to grant the request of the Inspectorate of the Ministry of taxes and duties. However, as there was no express statement regarding the reimbursement of these amounts as a consequence of the ruling, the branch filed a lawsuit to the arbitration court demanding reimbursement of the paid amounts.

There are no facts of actions of other organizations, taken prior to the reporting date as a result of which the Company should receive reimbursement, the value of which is a subject of legal proceedings.

### ***16.5 Insurance***

The Company insured a large, but not a full volume of fixed assets. No provisions were made with respect to reimbursement for the losses in case of termination of activity or in the event that the Company is liable to any third party for property or ecological damages, incurred as a result of accidents or any other occurrences involving the Company's property or its activity. There is a risk that loss or destruction of a part of the Company's property may significantly adversely affect the activity and financial position of JSC CenterTelecom, until the Company receives appropriate insurance coverage.

### ***16.6 Telecommunications industry regulation***

The restructure of Russia's telecommunications industry continues at present. It is now impossible to assess the future direction and influence of such reforms on the Company's activity. Potential reforms in the tariff policy may also essentially influence the Group's activity. In view of an uncertain future policy in the field of the industry regulation, the Company's executives have no opportunity to assess the degree of the influence potential changes in the regulations on the financial position and results of JSC CenterTelecom activity.

R. A. Amaryan  
General Director

L. K. Nedovesova  
Acting Chief Accountant