

Provisionally approved by  
the Board of Directors of  
*JSC CenterTelecom*  
May 4, 2003. Minutes No 9

***JSC CENTERTELECOM***

**ANNUAL REPORT**

**For the year 2002**

**Moscow**

## **I. COMPANY INFORMATION**

### **1.1. Full name of the Company.**

(Public) Joint-Stock *Central Telecommunication Company*

### **1.2. Address.**

23Proletarskaya Street, Khimki, Moscow region, 141400, Russian Federation

### **1.3. Date of the state registration of the Company and registration number.**

The Company was registered in the Unified State Register as of November 1, 2002, registration # 1025006174710

### **1.4. Company Charter (legal) capital and Securities.**

Company charter (legal) capital amounts to RUR631, 199, 896.5.

### **Placed and authorized shares of the Company as of 1.01.2003.**

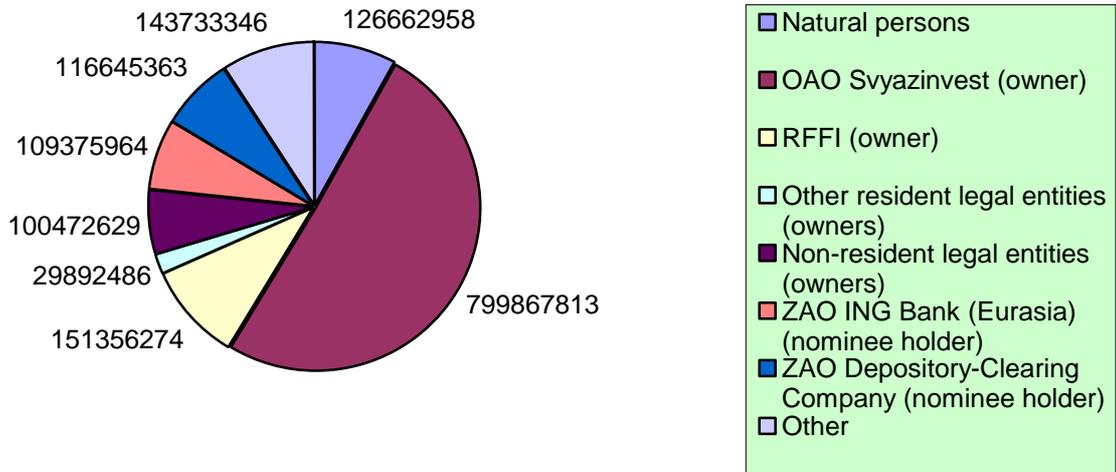
Table 1

<b>Shares category (type)</b>	<b>Number of shares</b>	<b>Par value (RUR)</b>
I. Placed shares:		
• ordinary – total	1 578 006 833	0,3
• preferred shares type A	525 992 822	
II. Authorized shares:		
• ordinary	76 166 167	0,3
• preferred shares type A	25 405 178	

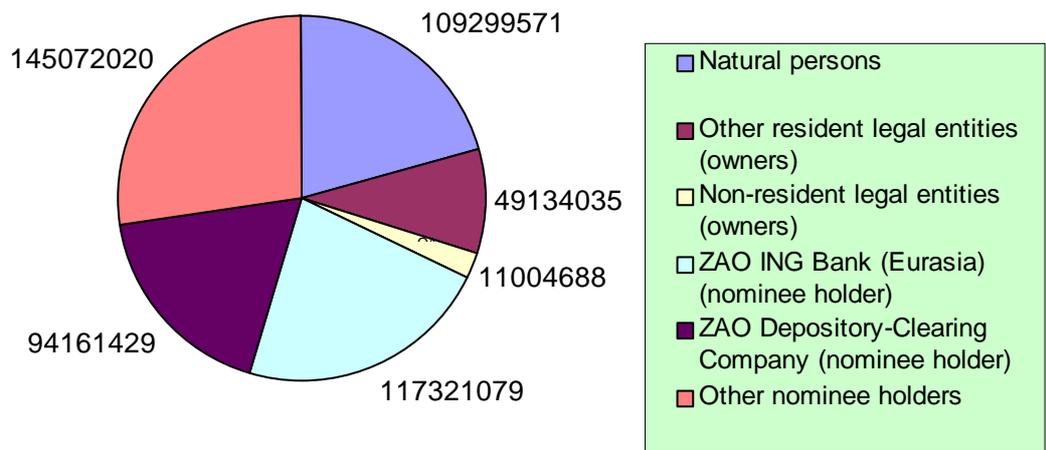
### **Charter (legal) capital JSC CenterTelecom (Central Telecommunication Company) as of 01.01.2003.**

Information on principal shareholders (name, status, number of shares by category, equity stake) is given in tables and charts.

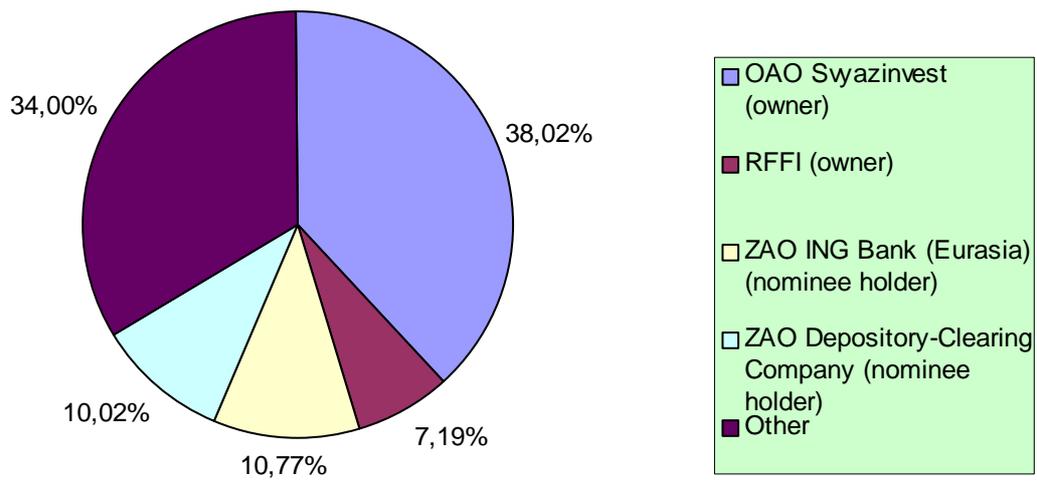
**Ownership of JSC CenterTelecom ordinary shares (number of shares) as of 01.01.2003**



**Ownership of JSC CenterTelecom preferred shares as of 01.01.2003**



**Ownership of JSC CenterTelecom by principal shareholders and nominee holders as of 01.01.2003**



	<b>Number of accounts</b>	<b>Number of ordinary shares</b>	<b>Number of preferred shares Type A</b>	<b>Equity stake %</b>
<b>Foreign legal entities</b>	<b>51</b>	<b>100472629</b>	<b>49134035</b>	<b>7.111</b>
<b>Russian legal entities</b>	<b>288</b>	<b>1350871246</b>	<b>367559216</b>	<b>81.674</b>
<b>Natural persons</b>	<b>37909</b>	<b>126662966</b>	<b>109330508</b>	<b>11.216</b>

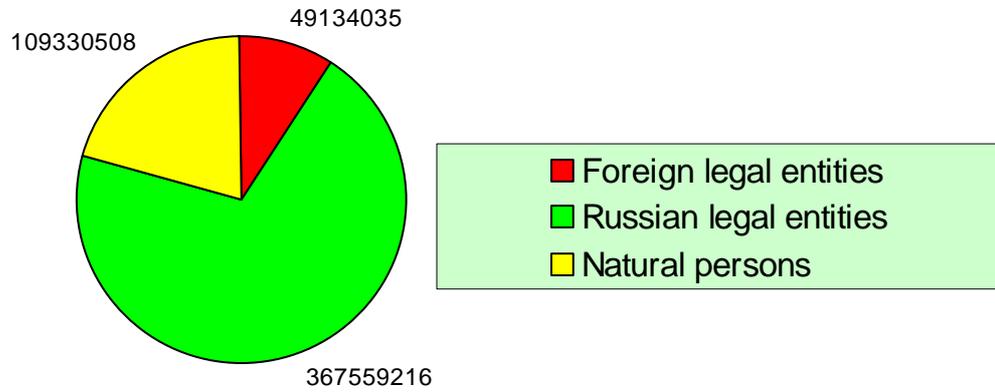
	<b>Number of client accounts in the shareholders registrar (as of 01.01.2003)</b>
<b>Foreign legal entities</b>	<b>51</b>
<b>Russian legal entities</b>	<b>288</b>
<b>Natural persons</b>	<b>37909</b>

	<b>Number of ordinary shares (as of 01.01.2003)</b>
<b>Foreign legal entities</b>	<b>100472629</b>
<b>Russian legal entities</b>	<b>1350871246</b>
<b>Natural persons</b>	<b>126662966</b>

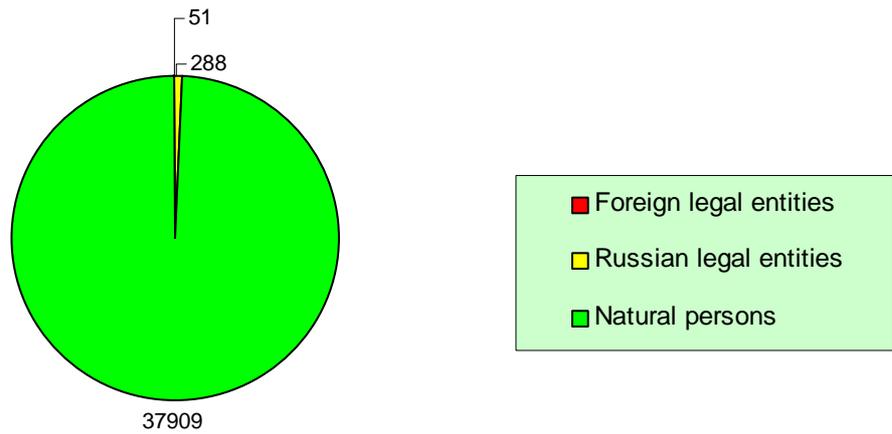
	<b>Number of preferred shares type A (as of 01.01.2003)</b>
<b>Foreign legal entities</b>	<b>49134035</b>
<b>Russian legal entities</b>	<b>367559216</b>
<b>Natural persons</b>	<b>109330508</b>

	<b>% of the charter capital JSC CenterTelecom (as of 01.01.2003)</b>
<b>Foreign legal entities</b>	<b>7,111</b>
<b>Russian legal entities</b>	<b>81,674</b>
<b>Natural persons</b>	<b>11,215</b>

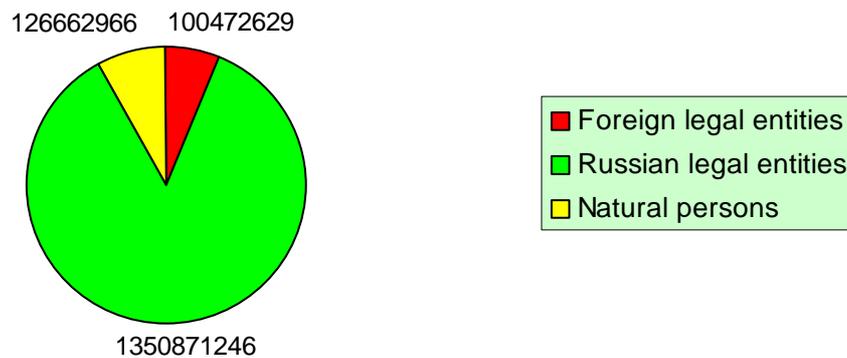
Number of preferred shares type A (as of 01.01.2003)



Number of accounts in the shareholders' register as of 01.01.2003



Number of preferred shares type A, pcs. (as of 01.01.2003)



**1.5. Information on the established (supported) ADR Program (Program registration date, name of a depositary bank, ADR ratio);**

Level 1 American Depositary Receipt program (ADR) for JSC CenterTelecom ordinary shares was registered on August 22, 2001 by U.S. Securities and Exchange Commission.

1 ADR comprises 100 Company ordinary shares.  
JP Morgan shall act as a depositary bank of the Company.

**1.6. Information on assigning of a credit rating to the Company and corporate governance score (specify rating agency and rating value).**

On 14.12.2001 international rating agency *Standard & Poor's* assigned to JSC CenterTelecom credit ratings of an issuer in local and foreign currency CCC. Forecast is Stable.

In November 2002 an agreement on corporate governance score was signed between JSC CenterTelecom and Standard & Poor's agency. It resulted in the Company being assigned a corporate governance score (CGS) of 5.3 in March, 2003.

**1.7. Information on the Company auditors (according to Russian and international standards):**

**Information on the issuer's auditor.**

Name: *ZAO Ernst & Young Vnesaudit*

Address: *103062, Moscow, Podsosensky pereulok, 20/12, building 1-1.*

INN: *7717025097*

Mailing address: *103062, Moscow, Podsosensky pereulok, 20/12, building 1-1A.*

Tel.: *7 (095) 705 9292* Fax: *7 (095) 705 9293*

Email: *adim.balashov@ru.eyi.com*

License number: *003246*

Date of issue: *17.01.2003*

Valid: *till 17.01.2008*

Issuing agency: *Russian Federation Ministry of Finance*

Term of the agreement: until the obligations are fully discharged (obligations of the auditor: audit of JSC CenterTelecom financial statements for the period from 01.01.2002 to 31.12.2002).

**1.8. Information on the Company Registrar:**

Registrar: *Closed Joint-Stock Company Registrar-Svyaz*

Address: *123557, Moscow, Presnensky Val, 27.*

Mailing address: *107078, Moscow, Kalanchyovskaya street, 15 A, P.O.B 45*

Tel.: *(095) 933-42-21* Fax: *(095) 933-42-21*

Email: *regsw@asvt.ru*

License number: *10.000.1.00258*

Date of issue: *01.10.2002*

Validity period: *unlimited*

Issuing agency: *Federal Commission for the Securities Market*

## **1.9. Information on the Company organization structure as of 31.12.2002**

Key organization departments of the Company as of 31.12.2002 are General Directorate, 17 branches and Supply and Logistics.

The following are wholly-owned subsidiaries-branches of JSC CenterTelecom : *Belsvyaz, Bryansksvyazinform, Elektrosvyaz of the Vladimir region, Voronezhsvyazinform, Ivtelecom, Kaluzhsky branch, Kostromatelecom, Kursk branch, Lipetskelektrosvyaz, Moscow branch, Orlovsky branch, Ryazansky branch, SmolenskTelecom, Tambovskaya elektrosvyaz, Tverskoy branch, TulaTelecom and YarTelecom.*

### Organizational Structure of the General Directorate of JSC CenterTelecom

#### **1. General Accounting Office**

##### **1.1. Consolidated financial statements department**

1.1.1. Office of consolidated financial statements according to the Russian accounting standards

1.1.2. Investment accounting office

1.1.3. Corporate accounting and reporting office

##### **1.2. Accounting Department**

1.2.1. Accounting office of the General Directorate

1.2.2. Methodology office

##### **1.3. Department of control, analysis and international reporting**

1.3.1. Office of consolidated financial statements according to International Accounting Standards

1.3.2. Analysis and control office

##### **1.4. Treasury**

##### **1.5. Internal audit office**

##### **1.6. Fiscal accounting and reporting office**

##### **1.7. Subscriber relations office**

#### **2. Legal department**

2.1. Legal protection office

2.2. Legal opinion office

2.3. License and patent office

#### **3. Contractual relations and restructuring department**

3.1. Corporate reorganization department

3.2. Contractual office

#### **4. Information and analysis department**

4.1. Expert and analysis office

4.2. Press service

4.3. Marketing and advertising office

#### **5. Economy and finance department**

5.1. Planning and economic office

5.2. Financial planning and funds management office

5.3. Budget consolidation office

5.4.Prices and rates office

**6.Information technology department**

6.1.Computer-aided system operation office

6.2.Corporate services office

6.3.Computer repairing office

6.4.Technical support office

**7. Prospective development department**

7.1. Prospective development office

7.2. New technology office

7.3.Technical office

**8.Telecommunication construction department**

8.1.Capital investment office

8.2.Telecommunication facility construction office

8.3.Project cost estimate office

**9.Telecommunication operation department**

9.2.Integrated telecommunication management Center

9.3. Operating management Center

9.3.1.Network management service

9.3.2. Operating service

9.4.Local telephone service office

9.5.Long distance and facsimile communication office

9.6. Public-phone operation office

9.7.Quality of service management office

9.8.Office of chief power supply engineer

9.9.Measuring laboratory office

9.10.Plan and economic team

**10. Wireless service and broadcasting department**

10.1.Frequency assignment office

10.2.Radio and TV broadcast office

10.3.Radio service office

**11.Customer department**

11.1.Customer service office

11.2.Complaint handling office

11.3.Service promotion office

**12.Human resources department**

12.1.Personnel relations office

12.2.Labour, management structure and social issues office

**13.Security department**

13.1.Security and counterterrorism activities office

13.2.Technical protection and fire safety office

13.3.Economic security office

13.4.Information security office

13.5.Group of special record keeping

**14.Labour protection department**

**15.Securities and corporate actions office**

**16.Mobilization training and emergency office**

**17.Metrology service**

**18.External operators relationship office**

**19.Clerical office**

**20.Inspection office**

**21.Training Center**

**22.External relations office**

**23.Property office**

**24.Environment protection office**

**25.State secret protection office**

**Information on the Company contact numbers, fax number, email and website.**

**Tel.: (095) 209-3434 Fax: (095) 209-3007**

**Email : [info@esmr.ru](mailto:info@esmr.ru)**

**Website: [www.CenterTelecom.ru](http://www.CenterTelecom.ru).**

## ***II. MAIN CORPORATE EVENTS OF THE YEAR 2002***

Brief information by months (quarters) of the year:

### **on the Company's reorganization**

- The process of reorganization of the Center companies and their affiliation with JSC CenterTelecom entered an active phase in 2002. Extraordinary general shareholder meetings, which resulted in making decisions on reorganization of all JSC of telecommunication of the Central and Central-chernozem regions of Russia in the form of affiliation with JSC CenterTelecom, were held in all companies in February 2002. Representatives of JSC CenterTelecom took an active part in all meetings.
- After such an extraordinary general shareholder meeting, all creditors were notified about the decision to undertake reorganization.
- On June 5, 2002, the Ministry of Russian Federation on Antimonopoly Policy and Support of Business granted the Solicitation on issuing approbation for the reorganization.
- A number of fundamental decisions that justify further integration processes on creation of a unified Center's telecommunication company were made during the meeting of the Board of Directors of the Company on February 10<sup>th</sup>, 2002.
- Thus, a decision was made about creation of regional branches of JSC CenterTelecom in regions of the Central and Central Black-soil areas of Russia (including the Moscow region) in accordance with location of the existing companies.

### **on holding general shareholder meetings (annual and extraordinary)**

- An extraordinary general shareholder meeting of JSC CenterTelecom shareholders was held on February 22<sup>nd</sup>, 2002: 99.51 % of all shareholders that took part in voting on the organization voted for reorganization. Relevant changes in the Charter of JSC CenterTelecom were approved and registered.
- A general annual shareholder meeting of JSC CenterTelecom was held on June 5<sup>th</sup>, 2002. The meeting elected new members of:
  - Board of Directors of the Company; Auditing Committee of the Company.
  - New version of the Company's Charter was approved.
  - The following provisions of the new version were approved:
    - On the Board of Directors of the Company; On the Governing Board of the Company.
    - Changes were introduced into Provisions on the Auditing Committee of the Company.

### **on payment of announced (accumulated) dividends on the Company's stock**

- The size of dividends, accumulated on one registered book-entry ordinary share of the Company, is **RUR 0.026**. Total sum of dividends, accumulated on stock of this category, is **RUR 11,741,626.2**.
- Total sum of dividends, paid for stock of this category, is **RUR 11,245,519**.

- The size of dividends, accumulated on one preferred personal non-documentary share of B type, is **RUR 0.038**. Total sum of dividends, accumulated on stock of this category, is **RUR 470,136**.
- Total sum of dividends, paid for stock of this category, is **RUR 470,136**.
- The size of dividends, accumulated on one preferred personal non-documentary share of the A type, is **RUR 0.077**. Total sum of dividends, accumulated on stock of this category, is **RUR 11,908,666**.
- Total sum of dividends, paid for stock of this category, is **RUR 11,629,592.54**.

#### **on assigning of credit rating and corporate governance score**

An Agreement on evaluation and initial assigning of the corporate governance score was concluded with the *Standard & Poor's* Rating Agency on November 29, 2002.

#### **Information on investor relations activities and development of the secondary stock market (description of main measures)**

JSC CenterTelecom undertook a number of measures on relations with investors and development of the secondary stock market in 2002 along the following lines:

##### **Disclosure of information according to results of the year 2001**

the Annual Report of the Company was drawn up, translated into English and published

road-show in Europe and USA

a teleconference according to results of the year 2001 was held with General Director of the Company

the Annual Report took part in the RTS's contest of annual reports

##### **Disclosure of information on quarterly results of the year 2002**

quarterly reports of the issuer of issuing securities were drawn up, distributed in accordance with the list of disclosed information, published on the corporate website and translated into English

##### **Conduct of the Annual General Shareholder Meeting**

an announcement about the meeting was drawn up, distributed and published on the Company's website

an address of General Director to shareholders was drawn up, distributed and published on the Company's website

the Annual General Shareholder Meeting was held

a press-conference for summing up results of the Meeting was held

an announcement about results of the Meeting was published on the Company's website

##### **Disclosure of information on important corporate events**

announcements about important corporate events were drawn up, distributed and published on the Company's website;

announcements about important facts about the Company were drawn up, translated into English and distributed;

an Information Memorandum to the Second Bond Issue of the Company was drawn up.

##### **Dealing with rating agencies**

a number of meetings with representatives of Standard & Poor's rating agency on supervision over the international credit rating of the Company were held and an Agreement on the corporate governance score was concluded.

##### **Corporate website maintenance**

information on the Company, its tariff policy, reports and important events that have to do with its activity was published in the course of the year. English version of the website was created.

### **Image advertising**

Advertising modules were published in periodicals in the Moscow region cities and towns, on the radio and TV channels of the Moscow region (where telephone exchanges are available).

Advertising block is published in the Federal Directory of the Ministry of Telecommunication.

Advertising block is published in the Business-address telephone directory.

Information is published in exhibition reference-catalogues (Expocom, Infocom).

Advertising materials are published in the Investment Directory.

### **Participation in meetings with investors**

Meeting with analysts and information agencies for summing up results of the year 2001.

Participation in the Foreign Investments in the Moscow Area round table, held by the Governor of the Moscow region.

Participation in the Svyaz-Expocom 2002 exhibition.

Participation in the Infocom 2002 exhibition.

Participation in the International CeBIT-2002 exhibition in Hanover (Germany).

Participation in the Asia Telecom 2002 exhibition.

Participation in the project Regions of Russia. Investment Portrait initiated by the State Duma. Submission of materials for this publication distributed in the world investment community.

Presentation of a starting complex of a multi-service network.

### **ADR program**

Support of the Level 1 ADR program continued.

## **- On charity:**

In 2002 the Company provided charity and sponsor assistance in the total amount of			
RUR 94,552,055, including:			
Moscow region – RUR 66,733,147			
regional branches – RUR 27,818,908			
Regional branches provided the following assistance as of the date of reorganization (as of 30.11.2002)			
charity in the amount of RUR 25,787,162, and after the date of reorganization			
(in December 2002) – in the amount of RUR 2,031,746			
The Moscow branch in 2002 provided assistance in the amount of RUR 66,733,147, including:			
1 quarter – RUR 4,418,605			
2 quarter – RUR 5,063,037			
3 quarter – RUR 27,194,355			
4 quarter – RUR 30,057,150			
List of organizations, to which the Moscow branch of JSC CenterTelecom provided assistance			
is given below:			
<b>№</b>	<b>Name of the organization</b>	<b>Date of providing assistance</b>	<b>Sum (RUR)</b>
1	<i>International Public Telecommunication Academy MOO</i>	1 <sup>st</sup> quarter of 2002	154,204.50
2	ANO RKH AVANGUARD	1 <sup>st</sup> quarter of 2002	30,000.00
3	MKS Slava–VII Charity Ecological Forum	1 <sup>st</sup> quarter of 2002	34,000.00
4	MOO <i>Community of Administrative Management Professionals</i>	1 <sup>st</sup> quarter of 2002	100,000.00
5	MTUCI	1 <sup>st</sup> quarter of 2002	75,000.00
6	Benefice of the Voznesenskiy (Sophia) Cathedral in the town of	1 <sup>st</sup> quarter of 2002	3,800,000.00

	Pushkin		
7	Regional Public Organization <i>Federation of Figure Skating and Dances on Ice</i>	1 <sup>st</sup> quarter of 2002	100,000.00
8	ROOIVS <i>Rusichy</i>	1 <sup>st</sup> quarter of 2002	10,000.00
9	Military Unit 34434	1 <sup>st</sup> quarter of 2002	10,000.00
10	Institute of the World Economy	1 <sup>st</sup> quarter of 2002	10,000.00
11	Police Emergency Platoon support Foundation under the aegis of the Central Administration of the Ministry of Internal Affairs in the Moscow region	1 <sup>st</sup> quarter of 2002	50,000.00
12	Other	1 <sup>st</sup> quarter of 2002	45,400.00
13	Administration of MO Tarusskiy region	2 <sup>nd</sup> quarter of 2002	25,000.00
14	State Saltykovskiy Children's Home	2 <sup>nd</sup> quarter of 2002	110,000.00
15	GU DOCN SDUSHOR in tennis <i>Olimpiyets</i> of the Moscow Sports Committee	2 <sup>nd</sup> quarter of 2002	100,000.00
16	Children's Home <i>Beriozka</i>	2 <sup>nd</sup> quarter of 2002	30,000.00
17	Animals' protection bureau – Moscow Region Section	2 <sup>nd</sup> quarter of 2002	50,000.00
18	MU <i>Social Asylum for Juveniles</i>	2 <sup>nd</sup> quarter of 2002	30,000.00
19	Non-profit Partnership <i>Center for Telecommunication Development Problems Study</i>	2 <sup>nd</sup> quarter of 2002	3,600,000.00
20	International Sporting Academy of V. Tretyak	2 <sup>nd</sup> quarter of 2002	70,000.00
21	Organization of Assistance to Telecommunication and Information Technology Enterprises – LLC <i>Resonance</i>	2 <sup>nd</sup> quarter of 2002	550,000.00
22	Regional Public Organization of Veterans (pensioners) of War and Labour of organizations and institutions of the Moscow region	2 <sup>nd</sup> quarter of 2002	100,000.00
23	Veteran Committee of UOOVOGV and PU of RF	2 <sup>nd</sup> quarter of 2002	60,000.00
24	Military telecommunication operation and restoration administration	2 <sup>nd</sup> quarter of 2002	50,000.00
25	Educational Department of Administration of the Ruzskiy district	2 <sup>nd</sup> quarter of 2002	210,000.00
26	Social Development Foundation of the Social Policy Co-ordination Administration	2 <sup>nd</sup> quarter of 2002	30,000.00
27	Other	2 <sup>nd</sup> quarter of 2002	48,037.24
28	<i>International Public Telecommunication Academy</i> MOO	3 <sup>rd</sup> quarter of 2002	157,666.00
29	Charity Foundation <i>200 years of the Ministry of Internal Affairs</i>	3 <sup>rd</sup> quarter of 2002	5,000.00
30	Charity Foundation <i>Garant-D</i>	3 <sup>rd</sup> quarter of 2002	100,000.00
31	All-Russian Association of Handicapped	3 <sup>rd</sup> quarter of 2002	60,000.00
32	Medical Department № 33	3 <sup>rd</sup> quarter of 2002	112,694.00
33	International Cultural Center <i>Slava</i>	3 <sup>rd</sup> quarter of 2002	23,250.00
34	NVK 2000	3 <sup>rd</sup> quarter of 2002	1,103,634.00
35	Non-profit Partnership <i>Center for Telecommunication Development Problems Study</i>	3 <sup>rd</sup> quarter of 2002	20,900,000.00
36	JSC Southern Telecommunication Company	3 <sup>rd</sup> quarter of 2002	200,000.00
37	All-Russian Public Organization <i>Tennis Federation of Russia</i>	3 <sup>rd</sup> quarter of 2002	758,270.40
38	Russian Foundation of Culture and Arts of Angelina Vovk	3 <sup>rd</sup> quarter of 2002	314,701.00
39	Educational Department of Administration of the Ruzskiy district	3 <sup>rd</sup> quarter of 2002	54,000.00
40	Foundation <i>Russian Foundation of History of Telecommunication</i>	3 <sup>rd</sup> quarter of 2002	3,000,000.00
41	Central Research and Development Institute of Telecommunication (CNIIS)	3 <sup>rd</sup> quarter of 2002	252,489.60
42	Other	3 <sup>rd</sup> quarter of 2002	152,650.00
43	Administration of the town of Podolsk – Committee on Education and Youth Policy	4 <sup>th</sup> quarter of 2002	30,000.00
44	Charity Foundation <i>200 years of the Ministry of Home Affairs</i>	4 <sup>th</sup> quarter of 2002	45,000.00
45	GUMO GRC Radio of the Moscow Area	4 <sup>th</sup> quarter of 2002	50,000.00
46	Publishing House <i>SPORT AST-PRESS</i>	4 <sup>th</sup> quarter of 2002	50,000.00

47	International Cultural Center <i>Slava</i>	4 <sup>th</sup> quarter of 2002	63,000.00
48	Animals' protection bureau – Moscow Region Section	4 <sup>th</sup> quarter of 2002	50,000.00
49	MU DUSTK <i>Krilatskoye</i>	4 <sup>th</sup> quarter of 2002	70,000.00
50	Non-profit Partnership <i>Center for Telecommunication Development Problems Study</i>	4 <sup>th</sup> quarter of 2002	9,750,000.00
51	All-Russian Public Organization <i>Tennis Federation of Russia</i>	4 <sup>th</sup> quarter of 2002	357,406.91
52	Political Party <i>Russian Party of LIFE</i>	4 <sup>th</sup> quarter of 2002	10,000,000.00
53	Parochial Council of the Blessed Virgin Birth Temple in Capotne	4 <sup>th</sup> quarter of 2002	100,000.00
54	Trade-union Committee of the Ministry of Telecommunication of Russia	4 <sup>th</sup> quarter of 2002	50,000.00
55	Regional Public Organization <i>Federation of Figure Skating and Dances on Ice</i>	4 <sup>th</sup> quarter of 2002	300,000.00
56	Educational Department of Administration of the Ruzskiy district	4 <sup>th</sup> quarter of 2002	81,000.00
57	Foundation <i>Russian Foundation of History of Telecommunication</i>	4 <sup>th</sup> quarter of 2002	9,000,000.00
58	Other	4 <sup>th</sup> quarter of 2002	60,743.10
<b>TOTAL</b>			<b>66,733,146.75</b>

### **on working with natural persons, consumers of new services of the Company**

In the year 2002, JSC CenterTelecom considered 25,696 complaints filed by subscribers (customers), of which – 8,355 claims acknowledged as justified, and 17,341 complaints were deemed ungrounded.

Increase of a number of basic telephone sets (BTS) in 2002 in JSC CenterTelecom reached 259,386 sets.

#### **Telephony Services:**

- Provision of access to the telephone network via wire circuit.
- Provision of local telephone calls (conversation) with a subscription system of payment for local telecommunication services.
- Provision of automatic long-distance telephone connections (conversations) via backbone and zonal communication links.
- Integrated Services Digital Network (ISDN).
  - Provision of base access BRI (2B+D) ISDN, with allocation of one number, using a network interface and terminal.
  - Provision of an additional ISDN number (from 2 to 8).
  - Transfer of the base access line of ISDN in the event of a subscriber's relocation in accordance with his or her application, when technically possible.
- IP-telephony services for natural persons – cards that allow reduction of cost of long-distance and international calls.
- IP-telephony services for corporate customers – reduction of cost of telephone conversations by means of application of the VoIP technology.

#### **Optional advanced services:**

- Abbreviated dialing.
- Direct call.
- Immediate direct call.
- Direct call with a delay.

- Call, ordered by a subscriber (alarm clock).
- Temporary blocking of incoming calls.
- Temporary blocking of outgoing calls.
- Completion of a call to a busy subscriber (direct-dialed call).
- Completion of a call when there is no response.
- Queuing of incoming calls.
- Unconditional incoming call forwarding.
- Temporary redirection of incoming calls (per day), RUR.
- Transfer of calls to the auto-answering machine.
- Transfer of a call when the called subscriber number is busy.
- Redirection of a call when there is no response.
- Holding a call for making inquiries.
- Three-party call.
- Call waiting.
- On-line conference call.

### **Data transfer and telematic services:**

- Dial-up Internet access paid through a card on per-minute basis.

(When using this service, access to Internet is provided through a personal computer, equipped with a modem. Bit rate depends on a modem and could reach 56 kbit/s.)

- broadband Internet access using DSL technology with preservation of the existing telephone line.

(Main difference of a dedicated access from a switched one is in the fact that the computer has a permanent connection to the Internet. Therefore, there is no need to dial the modem pool of the provider in order to receive e-mail messages or surf the web.

In the event you surf Internet using a dial-up access, your phone would be busy. And vice versa, if someone speaks over the phone, you cannot access the Internet. In the event that ADSL is used, the phone is available. You may navigate Internet and speak over the phone simultaneously.

ADSL belongs to the class of broadband technologies. It provides the data transfer rate in the direction towards the subscriber – up to 7.5 Mbit/s, and from the subscriber – up to 1.5 Mbit/s. The high rate allows comfortable navigation through websites, fast download of big files and documents, interaction with multimedia and full value use of interactive applications.

One ADSL channel may secure navigation in the Internet of a group of users. An ADSL modem has the 10Base-T interface and is connected to a computer's network adapter or a local network hub.)

- access to the Internet via dedicated lines
- provisioning of virtual private networks (VPN)
- transmission of digital video and TV via the ATM network
- broadband access with voice and data integration

### **Corporate projects and systems integration:**

- lease of dedicated lines
- integrated projects of creation of protected networks for corporate customers with integration of services, including integration of office telephone exchanges and local computing networks
- organization of video conferences

## **Relations with the Company's staff**

INTERNAL CORPORATE EVENTS, HELD IN THE COMPANY IN 2002.

My parents – telecommunication workers contest of children's arts with participation of about 400 children of the Company's workers was organized in March 2002. There were 25 prizewinners in the contest and they received awards on the Knowledge day on September 5<sup>th</sup>, 2002. That event was covered in mass media (*Trud* and *Daily News. Moscow Area* newspapers) and a corporate calendar with photos of prizewinners' paintings was published.

The Health Day, celebration of which became a good tradition for the Company's staff, was organized in July 2002. A ship travel down the Moscow-river was organized for 200 workers.

A competition of cable jointers, during which new cabling technologies were applied, was held in November 2002 on the base of the Training Center. The competition prizewinners received diplomas, money awards and gifts.

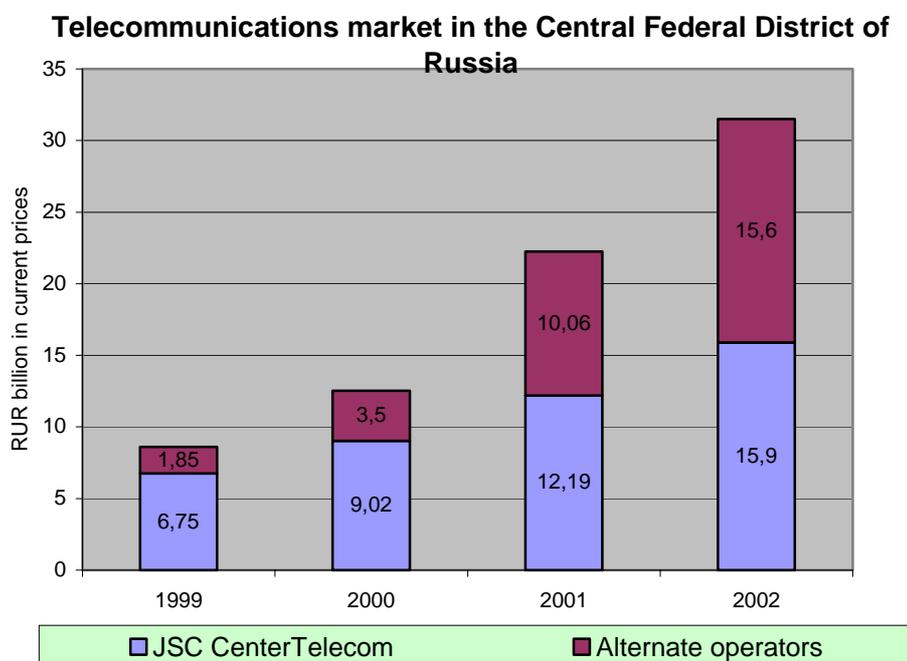
There was also a sports day organized among the Company's staff in five sports: ski-racing, ski relay-racing, chess, volleyball and table tennis. 14 teams took part in that sports day. The winners (the teams of Podolsk Telecommunication Service Node (UES), Serpukhov UES and Khimky UES) were awarded with cups, diplomas and money awards. In March, the JSC CenterTelecom volleyball team had matches with teams of other companies and became the winner.

### III. COMPANY'S POSITION IN THE INDUSTRY

According to official statistics, the volume of the telecommunication market of Russia in 2002 constituted **RUR 265 billion** or **USD 8,342,678 thousand**.

The share of telecommunication companies of the Central and Central Black-soil regions constituted **USD 4,587,307 thousand**, out of which **USD 3,994,589 thousand** falls to the share of the companies registered in Moscow. Sales of telecommunication services in the area of JSC CenterTelecom activity amount to around **USD 600 million** or 83% of the market in the service area.

The actual volume of the telecommunication services market in the regions of the Central Federal Administrative District is significantly higher, and the share of JSC CenterTelecom is lower, since the official statistics does not distinguish, for example, between sales of services of different Moscow operators in the regions of the Central Federal District.



According to CominfoConsulting agency, the total share of JSC CenterTelecom in the telecommunication market of the Central part of Russia has a tendency towards decrease. While in 1999 it constituted 89%, it was assessed as 52% in 2002. The decrease rate will remain in the nearest future. It is caused by high rates of development of alternative operators, mainly cellular ones, that are not connected with state regulation of tariffs, the income of which had increased during that period in over 5 times.

Taking into account revenues from provision of cellular communications, the JSC CenterTelecom market share by regions is assessed as follows:

Region	JSC CenterTelecom market share
Moscow region	46%
Vladimir region	65%

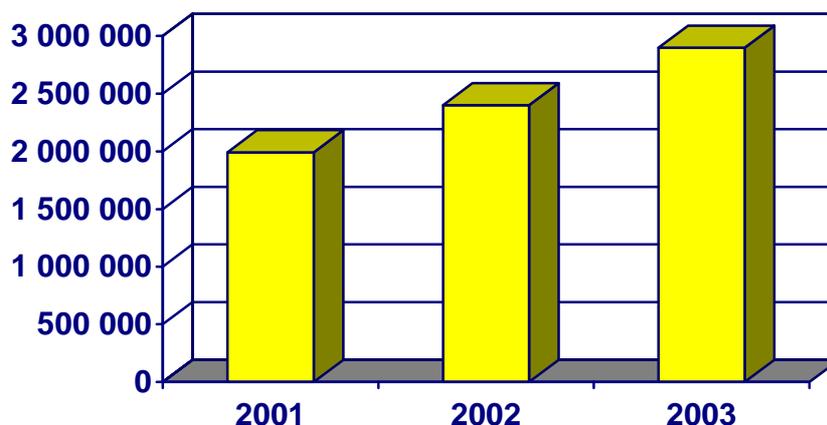
Voronezh region	69%
Tver region	60%
Tula region	50%
Yaroslavl region	31%
Ivanovo region	60%
Kursk region	66%
Ryazan region	52%
Belgorod region	60%
Smolensk region	54%
Lipetsk region	60%
Kaluga region	72%
Orel region	66%
Bryansk region	62%
Tambov region	61%
Kostroma region	42%

**In the sector of traditional telephony (POTS) JSC CenterTelecom** share in general and in all regions stays at the level of **85%** and higher and has a low rate of decrease. Taking into account the rate of service development, planned by the Company, and the tariff policy, announced by the Government, its position in the sector of traditional services would be intact.

Internet access services – competition is especially strong in this market segment. Regional branches of JSC CenterTelecom still hold leading positions and around 60% of corporate and 70% of individual users use its services. A high level of competition is observed in Voronezh, where the share of the regional operator is about 20%. The highest level of competition is in the Moscow region (less than 15%).

Some of the main competitors are Combella, Demos-Internet, MTU-Inform, Comcor and a number of regional operators. The majority of operators operate either in one of the segments of the Internet-market, or in a limited territory (1-2 districts or a number of neighboring towns). Having in its disposal infrastructure in all regions, the Company has certain competitive advantages, realization of which is envisaged by the marketing strategy.

#### **Growth of long-distance traffic, thousand minutes**



**Long-distance services** generates the bulk of the Company's revenues (60% of revenues from ordinary activity). Long-distance communication has the highest rate of development among traditional services of fixed-line communication – traffic growth is higher than rates of putting lines into operation.

When speaking about the Central Federal Administrative District, only the JSC CenterTelecom possesses a comprehensive access infrastructure for users of long-distance services – over 5.5 million subscribers of local networks have access to PSTN of Russia and other countries through 29 long-distance telephone exchanges in the regions. A network of multipurpose public phones is developed actively. The share of outgoing charged traffic, routed through CenterTelecom – *Rostelecom*, as of the end of the year 2002, is assessed as higher than 90%. Competition in this market segment is growing on the part of cellular operators and Internet-telephony operators.

### Mobile communications

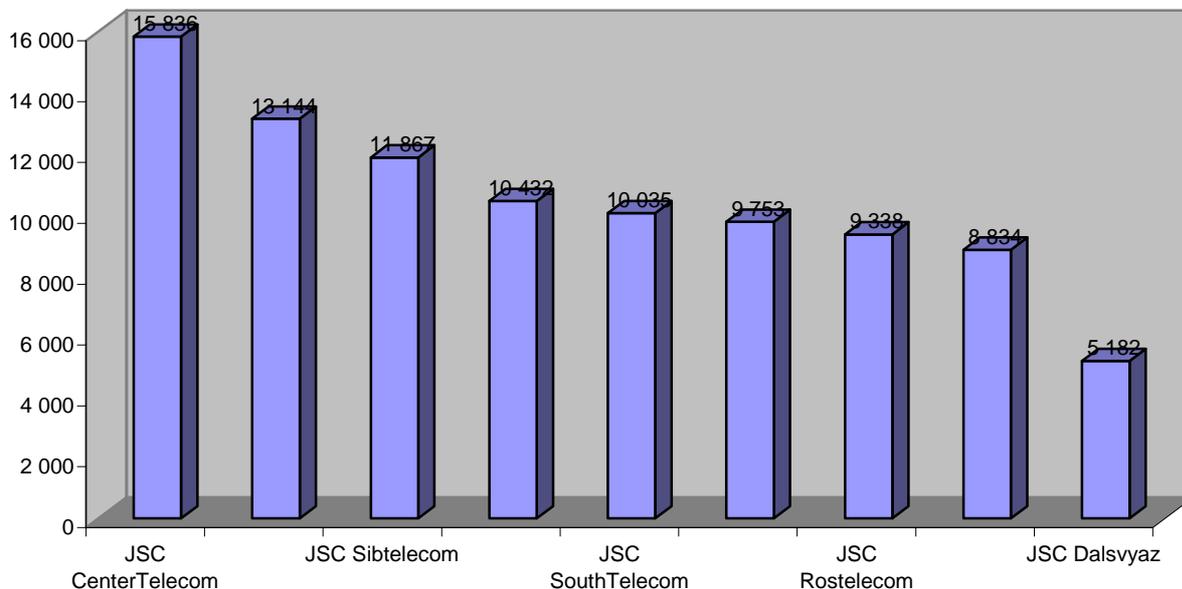
All three national operators of mobile communication actively operate in the service area of JSC CenterTelecom. That is why command of available licenses and resources in this market segment requires additional study.

### Revenues of telecommunication joint-stock companies from sales of telecommunication services.

RUR million

JSC CenterTelecom	15,836
JSC <i>Uralsvyazinform</i>	13,144
JSC <i>Sibtelecom</i>	11,867
JSC <i>VolgaTelecom</i>	10,432
JSC <i>STK</i>	10,035
JSC <i>North-Western telecom</i>	9,753
JSC <i>Rostelecom</i>	9,338
JSC <i>MGTS</i>	8,834
JSC <i>Dalsvyaz</i>	5,182

Income of telecommunication services from sales of telecommunication services (RUR million)



The Company owns a telecommunication infrastructure in the most densely populated region of Russia. Subscribers of CenterTelecom in 17 constituent entities of the Russian Federation in the Central Russia are state organizations, natural persons and an overwhelming majority of businesses. The Company maintains a dominant position in the sector of traditional services – over 85% of the total sales.

New communication services accounts for a minor share in the Company's revenues – 2.4%. Besides, regional branches of JSC CenterTelecom hold leading positions in the Internet segment of the market (apart from the Moscow and Voronezh regions). 60% of corporate and over 70% of individual users use their services. The highest level of competition is in the Moscow region (CenterTelecom's share is less than 15%), however, commissioning of a multi-service ATM-network in the reporting year, a shift to an aggressive marketing policy make it possible to bring the Company's share in this market sector up to 30%.

## ***IV. COMPANY PRIORITIES***

### **4.1. Main directions of development of the Company in introduction of new data and telematic services.**

The priority in providing new services in 2002 was provisioning of Internet access for a wide range of users, both via switched channels and with the use of fully accessible multi-service networks, which employ IP/MPLS/ATM technology.

In the reporting year a broadband multi-service data network, based on ATM technology and Lucent Technologies' equipment, was put into operation. Further expansion of data transfer networks in other regions took place, which resulted in growth of the number of Internet users by over 2 times. Regional branches of JSC CenterTelecom pay great attention to opening centers of group Internet access both in communication post-offices and in their own offices. Besides, Internet access is arranged in medical institutions, high schools, boarding schools and children's homes. JSC CenterTelecom provides a popular service nowadays – Virtual Private Network (VPN).

JSC CenterTelecom works on creation of a common data network of the Company through integration of data networks of its branches, which would allow for ensuring a guaranteed service level with the maximum quality.

The main directions of development of telecommunication systems on the basis of radio-electronic means in THE SUPER-REGIONAL COMPANY were:

1. Conduct of preparatory work stage on creation of a cellular communication network of a new generation of the CDMA-450 standard on the basis of cellular communication networks of NMT-450 standard of THE SUPER-REGIONAL COMPANY branches. For this purpose, documents for obtaining a frequency range for operation in CDMA-450 standard were submitted to GCRF, possible variants of building a communication network were developed and a preliminary comparative analysis of equipment suppliers was conducted.
2. Preparatory works were conducted for establishment of conditions for switching over to the new digital standard of mobile radiotelephone communication TETRA. For this purpose, JSC CenterTelecom and *Rohde & Schwarz* (Germany) company signed a co-operation agreement. Documents were submitted to GCRF for allocation of a frequency band in the 300 MHz range. Building of a TETRA network would allow providing of modern communication services to a wide range of corporate users and to undertake measures within the framework of the Electronic Russia program.
3. A range of works on building of broadband multi-service access networks on the basis of fiber optics channels and systems of MMDS, LMDS and cable TV technologies were conducted in a number of JSC CenterTelecom branches in 2002. Expansion of activity in this direction would allow increase of a spectrum of provided services, including Internet, telematic services, high quality television and digital telephony.
4. Works on switching over of rural networks of line broadcasting to on-air broadcasting with the purpose of increase of profitability and reduction of costs on traditional line broadcasting are still a priority direction of activity.
5. Works on installation of telephones for privileged categories of natural persons and in remote inhabited localities of the Central Federal District of

RF with the use of various systems of wireless access and according to the principle of installation of public telephones went on.

#### **4.2. Top-priority tasks of the Company in introducing per-minute based phone call charging.**

Installed capacity, equipped with ACB (Automatic Call Billing), covers over 3.5 million of numbers. Unfortunately, due to unavailability of clear regulatory documents and lack of understanding of local authorities, only 880 thousand numbers or 25% are in the industrial operation.

All newly introduced digital automatic telephone exchanges, which operate in the Company's network, have functions of automated time rate calculation of phone calls. Planned activity on additional equipment of analog exchanges, conducted by the Company, allowed increase of the number capacity, equipped with ACB.

#### **4.3. Tariff policy of the Company.**

Since reorganization of (public) joint-stock telecommunication companies of the Central and Central Black-soil regions of Russia through integration with the JSC CenterTelecom was completed at the end of the year 2002 (November 30, 2002), the integrated companies conducted their own tariff policy during the year under review.

Tariffs for provision of telecommunication services of the integrated companies are regulated by the State, viz. by the Ministry on Antimonopoly Policy and Support of Entrepreneurship (MAP of RF).

Information on tariffs of integrated companies is given by tables in sub-section 5.3 of Section V.

## **V. RESULTS OF DEVELOPMENT IN THE COMPANY'S TOP PRIORITY FIELDS**

One of the priority directions of development of the Company is providing services in broadcasting television programs via cable television networks (CTVN). At present, 10 hybrid fiber-optic-coaxial CTVNs of the total design capacity of about 100 thousand subscribers are in operation. The networks ensure broadcasting of up to 30 television programs.

Starting from 2002, the Company developed and approved a plan of modernization of existing CTVNs in order to provide new services through them, such as Internet access and IP-telephony. All newly built CTVNs are necessarily equipped with technical means that provide a broadband access (BBA).

It is planned to build multi-service broadband networks on the basis of a hybrid optical-coaxial CTVN in the town of Kostroma of 60 thousand subscribers capacity and in the town of Zhukovski in the Moscow region of 10 thousand subscribers capacity in 2002-2003.

Building of BBA networks with application of MMDS technology is conducted in the towns of Solnechnogorsk and Serpukhov in the Moscow region. The total installed capacity of the networks would constitute over 20 thousand of subscribers.

The Company holds negotiations regarding commencement of realization of the plan of building a network of cellular television in the territory of the Moscow region on the basis of the LMDS technology. A pilot project of a network for 10 thousand subscribers in the town of Podolsk in the Moscow region is under development.

### **5.1. Investment policy**

#### **5.1.1. Capital expenditures of investments in fixed assets according to reports of regional branches on fulfillment of the investment plan for the year 2002**

Name of the branch	Investment amount Planned	Investment amount			Sources of financing	
		Actual total	including	equipment	Own funds	Debt funds
			SMR			
Belsvyaz	161,614	191,718	79,869	107,971	94,839	83,588
Bryansksvyazinform	190,628	206,948	64,683	130,705	88,315	118,633
Elektrosvyaz of the Vladimir region	188,515	250,570	106,402	143,245	130,101	120,469
Voronezhsvyazinform	554,567	549,132	120,758	413,132	93,832	455,300
Ivtelecom	154,847	155,867	29,076	126,791	50,882	104,984
Kaluga branch	222,404	132,158	35,115	96,460	131,614	544
Kostromatelecom	98,293	109,502	35,700	56,655	44,489	65,013
Kursk branch	201,820	213,973	51,304	162,225	57,329	156,644
Lipetskelektrosvyaz	143,799	159,938	61,548	75,030	72,100	87,838
Moscow branch	1,366,601	1,381,368	307,321	974,857	1,381,368	1,091,804
Orlovsky branch	257,786	214,525	17,043	197,482	59,007	155,518
Ryazan branch	200,022	169,187	44,026	124,794	56,269	112,918
SmolenskTelecom	163,708	177,854	56,555	117,786	83,366	94,488
Tambovskaya elektrosvyaz	247,663	196,159	49,054	144,362	44,437	151,722

Tver branch	212,411	229,144	67,417	150,870	104,700	124,444
TulaTelecom	383,410	399,451	179,604	211,120	207,893	191,558
YarTelecom	249,972	278,400	81,813	189,395	186,380	92,020
<b>Total</b>	<b>4,998,060</b>	<b>5,015,894</b>	<b>1,387,288</b>	<b>3,422,880</b>	<b>2,886,921</b>	<b>3,207,485</b>

### 5. 1. 2. Commissioning of main production facilities

according to reports of regional branches on fulfillment of the investment plan for the year 2002

Name of the branch	Commissioned capacity				Dismantled	Wireless
	numbers	including		transmission lines inside numbering plan areas: fiber and microwave links km.	phone	phone
	total	urban telephone networks (GTS)	rural telephone networks (STS)		numbers	numbers
Belsvyaz	<b>21,430</b>	17,484	3,946	456		
Bryansksvyazinform	<b>41,356</b>	39,196	2,160	280	30,800	
Elektrosvyaz Vladimirskoj oblasti	<b>33,200</b>	33,200		375	22,620	
Voronezhsvyazinform	<b>52,137</b>	47,775	3,850	161	20,024	
Ivtelecom	<b>9,610</b>	9,610			7,270	
Kaluzhsky branch	<b>18,360</b>	17,468	892	4	9,344	
Kostromatelecom	<b>10,740</b>	9,190	1,550	47	1,729	
Kursk branch	<b>14,263</b>	13,478	785	49	150	
Lipetskelektrosvyaz	<b>43,612</b>	40,944	2,668	101	29,488	
Moscow branch	<b>63,382</b>	52,256	11,126	534	9,000	1,100
Orlovsky branch	<b>38,596</b>	33,660	4,936			
Ryazansky branch	<b>5,720</b>	5,620	100	91		
SmolenskTelecom	<b>17,030</b>	16,280	750	43	4,000	
Tambovskaya elektrosvyaz	<b>16,158</b>	12,728	3,430	365		29,000
Tverskoy branch	<b>32,828</b>	32,328	500	337	12,654	
TulaTelecom	<b>31,902</b>	31,902		168	9,392	
YarTelecom	<b>21,516</b>	18,696	2,820	130	300	
<b>Total</b>	<b>471,840</b>	<b>431,815</b>	<b>39,513</b>	<b>3,141</b>	<b>156,771</b>	<b>30,100</b>

### 5.2. Main indicators of network development

Table 2

№	Indicators	Unit of measurement	2001	2002	Growth rate 2002/2001 (%)
1	2	3	4	5	6

1.	Increase in length of trunk (intra tariff band) telephone channels, total	thousand channel * km	<b>3,140.5</b>	<b>4,622.66</b>	<b>147.2</b>
	including formed by digital transmission systems	thousand channel*km	<b>3,181.8</b>	<b>4,640.02</b>	<b>145.8</b>
2.	Increase in the number of basic phone sets, total including	thousand units	<b>249,588</b>	<b>259,584</b>	<b>104.0</b>
	- GTS (in urban communities);	thousand units	<b>215,779</b>	<b>221,913</b>	<b>102.8</b>
	- STS (in rural communities);	thousand units	<b>33,809</b>	<b>37,671</b>	<b>111.4</b>
3.	Increase in the number of outgoing direct-dial trunk telephone circuit, total	channel	<b>2,012</b>	<b>2,184</b>	<b>108.5</b>
	including intra tariff band NPA circuits	channel	<b>1,220</b>	<b>1,721</b>	<b>141.1</b>

### 5.3. Tariff Information

#### *Belsvyaz – A subsidiary (branch) of JSC CenterTelecom*

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set			4820,4	5078,8	67907,0	8766,0
	natural persons	6000,0	6000,0			49595,0	
	budget funded organizations	6000,0	6000,0			2768,0	
	non-budget funded organizations	6000,0	6000,0	4520,3	4933,8	15544,0	1855,8
2	Provision of access to a rural telephone network (STS) - basic telephone set	2000,0	2000,0			5470,0	
	natural persons	6000,0	6000,0			4663,0	
	budget funded organizations	6000,0	6000,0			210,0	
	non-budget funded organizations	6000,0	6000,0			597,0	
3	Local phone service under monthly rental arrangements for GTS			53,1	80,3	154791,0	226387,5

	natural persons	55,0	85,0			113190,0	
No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	budget funded organizations	75,0	110,0			15893,0	
	non-budget funded organizations	90,0	110,0			25708,0	
4.1	Local telephone service under per-minute billing for GTS (the constant part)			53,1	80,3	40180,0	
	natural persons		51,0			34553,0	
	budget funded organizations		61,0			2076,0	
	non-budget funded organizations		61,0			3551,0	
4.2	Local telephone service under per-minute billing for GTS (variable component)			53,1	80,3	9695,0	
	natural persons		0,10			7038,0	
	budget funded organizations		0,10			467,0	
	non-budget funded organizations		0,10			2190,0	

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
5	Local telephone service under monthly rental arrangements for rural networks (STS):			96,9	69,2	43818,0	
	natural persons	55,0	85,0			34951,0	
	budget funded organizations	75,0	110,0			3807,0	
	non-budget funded organizations	90,0	110,0			5060,0	
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):						
	natural persons						
	budget funded organizations						
	non-budget funded organizations						
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):			96,9	69,2		

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	Natural persons		0,10				
	budget funded organizations		0,10				
	non-budget funded organizations		0,10				
7	Long distance call	2,81	3,32		0,9	347587,0	104165,1
8	Inland telegram	0,50	0,80		26,0	5702,0	8636,2

Note: 1. Unit costs and reasonable expense calculations are performed as prescribed by Methods of Cost Accounting.

2. Local telephone call per-minute billing system was introduced on October 1, 2002, therefore no annual revenue and loss data are available.

In 2002 communication tariffs in Belgorod region were introduced and approved in accordance with resolutions and instructions issued by the Ministry of Antimonopoly Policy of the Russian Federation.

Beginning from January 1, 2002 local call charges in subscription billing system were increased to RUR70.00 to RUR90.00 for natural persons and budget funded organizations respectively.

Beginning from January 10, 2002 long distance call charges for budget funded organizations were increased to RUR1.32 per minute (tariff band 1) inland telegram tariff rose to RUR0.70 per word, in accordance with the Ministry of while inland telegram tariff rose to RUR0.70 per word, in accordance with Order no. 1322 dated December 18, 2001 by the Ministry of Antimonopoly Policy of the Russian Federation.

Beginning from May 1, 2002 local call per-minute tariffs were introduced by Order no. 323 dated April 4, 2002. Constant component for individual users was set at RUR42.00, with RUR50.00 for business sector. Per minute charge for all user categories: RUR0.08 per minute.

Beginning from September 1, 2002 local telephone service tariffs in subscription system were increased to RUR85.00 per month for natural persons and RUR110.00 for businesses by Order no. 629 dated August 19, 2002. Local per-minute tariffs were indexed to make the constant component become RUR51.00 RUR for natural persons and RUR61.00 for business sector. Per minute charge was increased to RUR0.10.

Beginning from December 10, 2002 long distance telephone call tariffs for budget funded organizations were increased to RUR1.60 per minute (tariff band 1), while per word charge for inland telegram became RUR0.80, by Order no. 785 dated November 20, 2002.

*Belsvyaz* provides communication services at discounted rates to subscribers entitled to reduced tariffs in accordance with federal law, laws of Belgorod region and related norms and regulations to the full extent. In 2002 company provided telephone services to 111052 and line radio services to 45677 privileged subscribers. Services total: RUR58397.9 thousand. RUR25269,6 thousand or 43% of that total were compensated (re: Federal Law On Veterans, Federal Law On Social Protection for the Disabled in RF, Federal Law On Social Protection for the Victims of Chernobyl NPP Disaster). Total accounts receivable during all years from foundation: RUR30598,0 thousand.

On May 1, 2002 the Ministry of Antimonopoly Policy of the Russian Federation introduced a per-minute billing system for local telephone calls. The tariff calculation was made in accordance with MAP RF Order no. 437 dated May 14, 2002 titled On Methods of Charge Calculation in Local Telephone Call Per-minute Billing System, registered by Ministry of Justice of the Russian Federation, re: Regulation no. 3545 dated July 02, 2002. The new billing system was tested in the city of Stary Oskol of Belgorod region in May through September 2002. Beginning from October 1, 2002, 61520 users switched over to per-minute tariffs, as the system began to operate full scale. Privileged users pay a constant component of only 10% of monthly subscription system charge, instead of 60%, as this group of clients is entitled to a 50% discount on tariff rate. In 2002 profits returned by per-minute billing system reached RUR49341 thousand.

**Bryansksvyazinform - A subsidiary (branch) of JSC CenterTelecom**

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set			15201	870,21	52857,9	12532,3
	natural persons	3500	5000	-	-	44364,1	
	budget funded organizations	5000	6000	-	-	1634,1	
	non-budget funded organizations	5000	6000	-	-	6859,7	
2	Provision of access to a rural telephone network (STS) - basic telephone set			12052	1501,3	5270,2	2955,7
	natural persons	2000	3000	-	-	4833,7	
	budget funded organizations	3400	5000	-	-	152,6	
	non-budget funded organizations	3400	5000	-	-	283,9	
3	Local phone service under monthly rental arrangements for GTS			52,08	67,09	143989,1	116110,2
	natural persons	70	80	-	-	103500,3	

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	budget funded organizations	100	100	-	-	14051,9	
	non-budget funded organizations	100	100	-	-	26436,9	
4.1	Local telephone service under per-minute billing for GTS (the constant part)						
	natural persons						
	budget funded organizations						
	non-budget funded organizations						
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						
	natural persons						
	budget funded organizations						
	non-budget funded organizations						

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
5	Local telephone service under monthly rental arrangements for rural networks (STS):			145,82	92,61	21930,2	31921,8
	natural persons	60	60	-	-	16194,1	
	budget funded organizations	100	100	-	-	2262,0	
	non-budget funded organizations	100	100	-	-	3474,1	
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):						
	natural persons						
	budget funded organizations						
	non-budget funded organizations						
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	natural persons						
	budget funded organizations						
	non-budget funded organizations						
7	Long distance call	2,98	3,0	1,66	1,23	246002,7	89043,0
8	Inland telegram	0,70	0,80	55,0	115,55	8173,1	24523,4

\* - For service 7 an average charge is specified.

**Rates updating milestones in 2002**

<b>Local telephone networks rate updates dynamics in 2002 (in RUR)</b>							
Period		Access provision			Subscription charge		
		organizations not funded by the appropriate budgets	organizations funded by the appropriate budgets	natural persons	organizations not funded by the appropriate budgets	organizations funded by the appropriate budgets	natural persons
from January 01, 2002	urban				100		70
	rural				100		60
from February 01, 2002	urban				100	90	
	rural				100	90	
from August 01, 2002	urban				100	100	
	rural						
from October 01, 2002	urban	6000	5000				80
	rural	5000		3000			60

The communication services rates charged to the natural persons include the value-added tax.

**Effective January 10, 2002** – telegraph communication services rates are updated (RUR0.70 per word for all users categories)

**Effective December 10, 2002** – telegraph communication services rates are updated (RUR0.80 per word for all users categories)

## Services provided to the privileged users categories

In 2002 the local telephone networks connections were provided to **1 202** citizens entitled to the benefits according to the current Russian Federation legislation. The local telephony usage benefits were granted to **85 241** subscribers, which was **10.8%** up the figures of 2001.

Wire broadcasting benefits were provided to **127 474** subscribers.

**37.5 %** of the local telephone network subscribers and **49.5%** of the wire-broadcasting subscribers are entitled to the benefits subject to the acts of law currently in force.

In 2002 the services provided to the privileged categories of citizens were worth **RUR43 703 000**, **RUR22 027 000** were compensated from different budgets, which amounted to **50.4%** of the provided services value.

### Information about the services provided subject to the current acts of law from January 1, 2002 to December 30, 2002 in Bryansksvyazinform

List of citizens and private persons categories who use the telecommunication services at privileged rates	Local telephone networks			Radio broadcasting	
	Number of installations	Number of subscribers	Value of the benefits provided, thous. RUR	Number of subscribers	Value of the benefits provided, thous. RUR.
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
Benefits provided subject to Law On Veterans	603	55 503	24 061.60	108 368	6 502.20
Benefits provided subject to Law On the disabled persons social protection	-	22 519	8 358.90	15 373	1 028.90
Benefits provided subject to Law On the status of the Soviet Union Heroes and full companions of the Glory medal	-	42	32.70	0	0.0

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
Benefits provided subject to Law On social protection of the citizens exposed to the radiation due to the Chernobyl Nuclear Power Plant disaster	159	1 320	924.80	1 146	70.60
Benefits provided subject to Law On rehabilitation of the political repressions victims	75	0	302.80	0	0.00
Benefits provided subject to Law On military servants	136	2 790	788.90	1 297	47.70
Benefits provided subject to Law On benefits to be provided to former juvenile prisoners of concentration camps, ghettos and other forced confinement sites established by the fascists and their allies during the Second World War	133	1 593	1 111.60	1 112	65.80
Benefits provided subject to Law On the status of judges	-	455	90.70	12	0.50
Benefits provided subject to Law On the Russian Federation public prosecutions department	-	226	53.10	-	-
Benefits provided subject to Law On social protection for the Russian Federation citizens exposed to the radiation influence as a result of the failure of PO <i>Mayak</i> and nuclear active waste discharge into the Techa river	1	18	5.1	7	0.3

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
Benefits provided subject to the Russian Federation Supreme Council Resolution On the extension of the RSFSR Law On social protection of the citizens exposed to the radiation due to the Chernobyl Nuclear Power Plant disaster to cover the citizens from the substandard risk regiments	1	45	17.2	23	1.8
Benefits provided subject to Law On Militia	94	631	218.6	136	1.4
Benefits provided subject to Law On the tax police authorities	-	99	18,1	-	-
<b>TOTAL:</b>	<b>1 202</b>	<b>85 241</b>	<b>35 984.10</b>	<b>127 474</b>	<b>7 719.20</b>

### Compensation of the losses incurred due to communication services payment benefits provided in 2002

000 RUR

Branch name	Compensation for the previous years (1996-2001)	Compensation for the local telephone communication services provided in 2002									Compensation for the wire broadcasting services provided in 2002					TOTAL compensated
		Law On veterans	Law On social protection of the disabled persons	Law On military servants	Federal Law On Chernobyl Nuclear Power Plant social protection	Law On militia	Law On tax police	Court staff	Repressed persons	On the Heroes' status	Law On veterans	Law On social protection of the disabled persons	Law On military servants	Federal Law On Chernobyl Nuclear Power Plant social protection	Law On militia	
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>	<i>7</i>	<i>8</i>	<i>9</i>		<i>10</i>	
TOTAL for Bryansksvyazin form	12 743.00	10 993.6	4 151.9	503.4	694.9	76.7	17.3	44.2	80.5	18	4 699.1	683.4	13.2	49.5	1.1	22 026.7

average income rate is indicated for service 7

***Ivtelecom* - a subsidiary (branch) of JSC CenterTelecom**

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set					44074	10544
	natural persons	5500.00	7500.00			32197	
	budget funded organizations	5500.00	7500.00			1661	
	non-budget funded organizations	5500.00	7500.00			10216	
2	Provision of access to a rural telephone network (STS) - basic telephone set					1913	1104
	natural persons	2000.00	2000.00			1546	
	budget funded organizations	2000.00	2000.00			64	
	non-budget funded organizations	2000.00	2000.00			303	
3	Local phone service under monthly rental arrangements for GTS			79.35	93.12	126902	163251
	natural persons	70.00	85.00			109670	

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	budget funded organizations	100.00	110.00			7604	
	non-budget funded organizations	100.00	110.00			9628	
4.1	Local telephone service under per-minute billing for GTS (the constant part)					13624	14195
	natural persons	-	-			-	-
	budget funded organizations	70.00	77.00			4206	
	non-budget funded organizations	70.00	77.00			9418	
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):					9459	
	natural persons	-	-			-	
	budget funded organizations	0.08	0.11			2921	
	non-budget funded organizations	0.08	0.11			6538	

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
5	Local telephone service under monthly rental arrangements for rural networks (STS):			122-49	174-94	14248	32774
	natural persons	60.00	70.00			10600	
	budget funded organizations	100.00	110.00			1579	
	non-budget funded organizations	100.00	110.00			2069	
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):						
	natural persons	-	-			-	-
	budget funded organizations	-	-			-	-
	non-budget funded organizations	-	-			-	-
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):	-	-			-	-

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	natural persons	-	-			-	-
	budget funded organizations	-	-			-	-
	non-budget funded organizations	-	-			-	-
7	Long distance call	2-13	2-18	1-20	1-52	196889	110793
8	Inland telegram	0.70	0.80	87-29**	21-52**	4172	15010

\* - For service 7 an average charge is specified.

\*\* - For service 8 average telegram price is specified (average word count – 22).

\*\*\* - Unit costs and annual cost are specified in accordance with Recommendations for cost distribution and identification of prime cost of main items of public communication services, introduced by FSEMS of Russia on April 11, 1997.

\*\*\*\* - Services 1 and 2 show costs included in monthly expenses relating to installation/reinstallation. Capital investment needed to set up 1 line is not considered.

## To the annual report for 2002

### Section 1. Main economic and operating performance indicators of the reporting organization for the year, communication sub-sectors operating results and future development outlook thereof.

Information on the amount of the costs incurred by Ivtelecom in relation to the services provision for specific user categories entitled for benefits and on the amount of monetary funds received by the communication company to implement the Federal Laws in their part related to the benefits provision.

Today Ivtelecom delivers its services to over **200 000** telephone communication users and over **140 000** wire broadcasting users. 80 945 or 45.7% of home phones users and 96 397 or 68.8% of the wire broadcasting users enjoy services payment benefits. The benefits are granted pursuant to 7 Russian Federation laws: On Veterans, On social protection of the disabled persons (only subject to the court decision), On social protection of the citizens exposed to the radiation due to the Chernobyl Nuclear Power Plant disaster, On the social protection provisions for Socialistic Labor Heroes and full companions of the Labor Glory medal, On the military servants status (only subject to the court decision), On the status of Soviet Union Heroes, the Russian Federation Heroes and full companions of the Glory medal, On the political repressions victims rehabilitation, the Russian Federation President decree On the benefits to be provided to the minor prisoners of concentration camps, ghettos and other forced confinement sites established by the fascists and their allies during the Second World War, the Sovnarkom resolution # 1593 dated September 29, 1939 On the wire broadcasting units, broadcasting public loudspeaker and broadcasting receivers (sight-impaired persons).

The value of the communication services payments benefits provided in 2002 pursuant to the aforesaid Russian Federation acts of law amounted to RUR42.7 million as broken down by budgets: federal budget – RUR33.92 million and regional budget – RUR8.83 million (including VAT, without sales tax). The following RF Laws account for the largest share of missing income value: On veterans (87.3%) and On social protection of the disabled persons in the Russian Federation (8.0%).

In 2002 the received compensation amounted to RUR32.0 million including the losses in the amount of RUR25.38 million that were compensated from the federal budget, including:

pursuant to the RF Law On veterans – RUR24.2 million (including RUR1.13 million for the free of charge telephone calls and RUR23.06 million for the telephone usage);

pursuant to Law On social protection of the citizens exposed to the radiation due to the Chernobyl Nuclear Power station disaster – RUR618,450. (including RUR122,500 for the discounted telephone network connection, RUR449,010 for the telephone usage and RUR46,940 for the wire broadcasting);

pursuant to Law On the military servants status – RUR493,140 (including RUR140,150 for the discounted telephone network connection, RUR352,990 for the telephone usage);

pursuant to Law On the status of the Soviet Union Heroes and full companions of the Glory medal – RUR5,200.

Thus the compensation amounted to 75% of the value of the missing income resulted from the benefits provisions subject to the laws financed from the Federal budget.

In 2002 the regional budget compensated the losses in the amount of RUR 6.6 million including:

pursuant to the RF Law On veterans – RUR 5.93 million for wire broadcasting usage;

pursuant to the RF Law On social protection of the disabled persons in the Russian Federation – 0,34 million RUR for wire broadcasting usage;

pursuant to Law On the military servants status – RUR6,240 for wire broadcasting usage;

pursuant to the RF Law On political repressions victims rehabilitation – RUR0.34 million for the free of charge telephone calls.

Thus the compensation amounted to 75% of the value of the missing income resulted from the benefits provisions subject to the laws financed from the regional budget.

But it should be noted that there is no compensation for the telephone usage pursuant to the RF Law On social protection of the disabled persons in the Russian Federation and to the RF President Decree On the benefits to be provided for the juvenile prisoners of concentration camps, ghettos and other forced confinement sites established by the fascists and their allies during the Second World War.

### **Interconnected telecommunication network of Russia.**

The extent of granting requests of RF Defense Ministry, Ministry of Internal Affairs, the Russian Federation Ministry of Emergencies, Federal Security Service of Russia, Federal Agency for Government Communication and Information to provide the analog and digital communication channels and paths.

The request by the special users to provide analog and digital channels are satisfied in full. The requests to provide trunk analog and digital channels are executed by GCUMS JSC Rostelecom, the intraregional analog and digital channels requests are executed by JSC Ivtelecom – Ivtelecom-Service.

The special users that predominantly include budget-funded organizations are provided with the telecommunication services based on the telecommunication services agreements and within the communication services payment limits approved by the budget liabilities administrator.

This users category generally uses traditional type of services that are provided to them in full. Besides the traditional services, the special users also use new types of services provided the payment thereof is fully guaranteed.

The telecommunication services government contract was concluded with two special users (military unit 64127, RF Government Communication Center [GCC] in the Ivanovo region).

### ***TARIFF POLICY***

#### **of Ivtelecom – a branch of JSC CenterTelecom in 2002**

The telecommunication services tariff system that exists in Ivtelecom and in the industry in general is based on the combination of the state regulation of the basic services rates subject to the communication services list approved by the RF Government and free market pricing. The mechanism of the communication services prices state regulation was established in 1995-1998. (Federal Law On natural monopolies, the RF Government resolutions # 265 dated March 7, 1997 On the communication services rates regulations and on approving the fundamental principles of the state regulation of the prices for the public telecommunication services on the federal and regional levels, # 1559 dated December 28, 1998 On improving the state regulation of the telecommunication services prices (rates) taking into account the RF Government Resolution # 715 dated October 11, 2001 On improving the mechanism of the state regulation of the telecommunication services rates.

Starting from 1999 the Russian Federation Ministry of Antimonopoly Policies and Support for Entrepreneurship is engaged in communication services rates regulation. In that case Ivtelecom initiated the rates updating.

Forming the tariff policy in 2002 involved achieving the goal of improving the economic performance and competitiveness of the Ivtelecom operations. When the rates were developed and also when the regulated services rates upgrading proposals were submitted the costs of services provisions, necessity for the network modernization and development, demand level, customers' paying capacity, competition factor, etc were taken into account. The said factors were reflected in the differentiated approach to developing the prices for the services to be approved by the Ivtelecom orders. But nevertheless the rates system still reflected the elements of the so-called cross-subsidy: the losses from the low profit making (local telephone communication) and loss-making sub-sectors (document communication and wire broadcasting) were compensated at the expense of the profits received from the highly profitable sub-sectors (long-distance telephone communication), the revenues from the services provided to the non-budget enterprises exceeded the losses from the unprofitable rates for the budget-funded organizations and natural persons.

### **Rates updating milestones in 2002.**

#### **On the Federal level:**

Effective October 1, 2002 the Russian Antimonopoly Ministry regulated rates for the for basic local telephone communication services (local telephone calls – subscription charges for the terminal device usage and queued provision of the telephone network connection for all users categories) were revised; effective January 1, 2002 – for trunk communication lines long-distance telephone connections for the budget-funded enterprises; effective January 20, 2002 – for main telephone services for all users categories (14-16% increase) and then effective December 10, 2002 – the same was increased for all users categories on average by 12-14%. Besides that, effective January 1, 2002 the 20% discount for long-distance calls over 6 minutes long was cancelled for all users categories.

The rates for the services regulated by **JSC Rostelecom** were not revised in 2002.

#### **On the Ivtelecom level:**

Rates for the services regulated by the Ivtelecom orders – free rates for a number of services were repeatedly revised throughout the period under consideration. Besides that, changes were also made due to the new services introduction, legislative environment changes and other reasons.

As of the end of 2002 the basic communication services rates have changed as compared to 2001:

#### **1. Permanent telephone access provided according to the waiting list:**

- for the natural persons      - in the urban areas increased by 36%
- in the rural areas remained unchanged
- for the non-budget enterprises      - in the urban areas increased by 36%,
- in the rural areas remained unchanged
  
- for the budget-funded organizations - in the urban areas increased by 36%,
- in the rural areas remained unchanged

#### **2. For local phone calls (subscription monthly rental):**

- for the natural persons – for the urban areas increased by 21%,
- for the rural areas increased by 17%
- for the non-budget enterprises      - increased by 10%,
- for the budget-funded organizations      - increased by 10%.

#### **3. For the long-distance calls:**

- for the natural persons and
- non-budget enterprises – remained the same
- for the budget-funded organizations – main-line directions
- increased by 14-20%

#### **4. For the inland telegram**

- for the natural persons – increased by 19%,
- for legal entities – increased by 17%

### Federal level regulation.

The rates regulation provisions approved by the RF Government resolutions # 265 dated March 7, 1997 On the communication services rates regulations and on approving the fundamental principles of the state regulation of the prices for the public telecommunication services on the federal and regional levels, # 1559 dated December 28, 1998 On improving the state regulation of the telecommunication services prices (rates), # 715 dated October 11, 2001 On improving the mechanism of the state regulation of the telecommunication services rates in their part related to the regulated communication services rates were not fulfilled in full.

The tendency to approximate the rates for different consumer groups was maintained in the reported year. Thus as of the end of 2001 the ratio of the terminal device subscription charges between different categories was as follows 1:1.6:1 (natural persons, budget-funded organizations, non-budget enterprises), by the end of 2002 that ratio was 1:1.2:1.2.

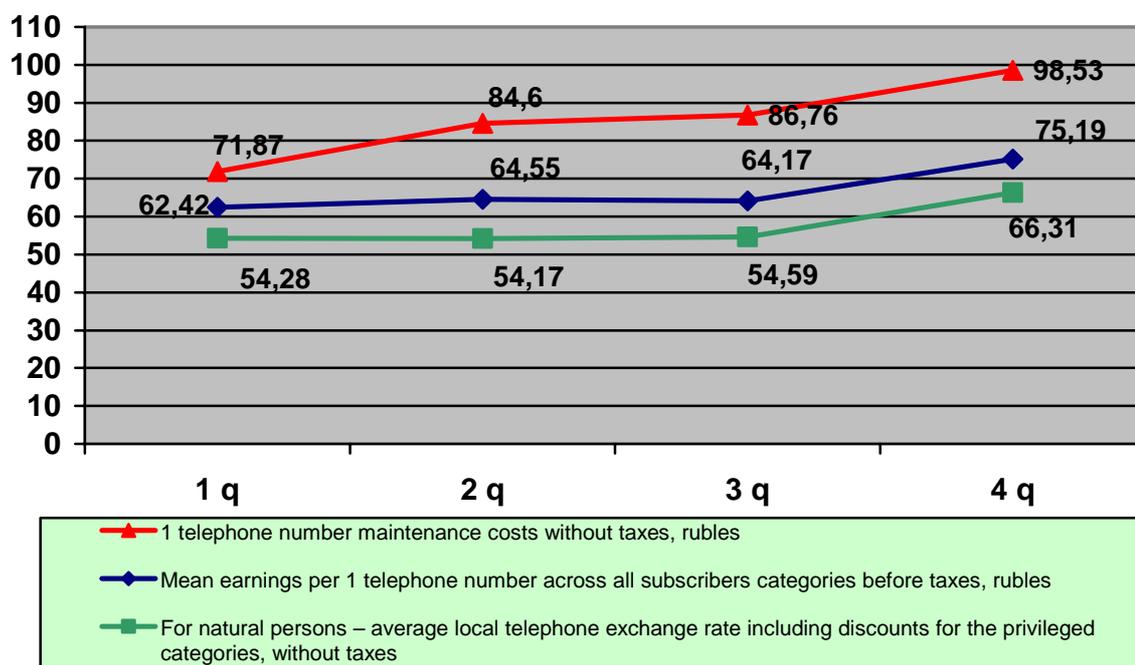
### Local telephone communication services rates as of the end of 2002 (in RUR).

Communication service type	Natural persons	Organizations funded from the appropriate budgets	Organizations not funded from the appropriate budgets
<b>1.</b> The fee for the provision of the local telephone calls (subscription charge) from the terminal device operating on a separate subscriber's line, per month	VAT inclusive rates. Effective October 01, 2002 Rates include sales tax – 5%.	Rates without VAT Effective October 01, 2002	Rates without VAT Effective October 01, 2002
<b>1.1</b> urban areas	89.25	110.00	110.00
<b>1.2</b> rural areas	73.50	110.00	110.00
<b>2.</b> Provision of the telephone network access according to the waiting list for phone installation	VAT inclusive rates Effective: - October 01, 2002 for urban subscribers - April 20, 2001 for rural subscribers Rates include sales tax – 5%.	Rates without VAT Effective: - October 01, 2002 for urban subscribers - January 01, 2000 for rural subscribers	
<b>2.1</b> urban	7875.00	7500.00	7500.00
<b>2.2</b> rural	2100.00	2000.00	2000.00
<b>3.</b> For the telephone calls transferred to the time-charged local calls rates – provision of the local telephone calls	VAT inclusive rates Effective October 01, 2002 Rates include sales tax – 5%.	Rates without VAT Effective October 01, 2002	Rates without VAT Effective October 01, 2002
<b>3.1</b> Flat monthly rental	62.48	77.00	77.00
Time of calls included into the fixed monthly payment (minutes)	Free calls limit is not provided for		
<b>3.2</b> Time-charged payment, per each complete or incomplete minute on weekdays			
from 08 a.m. to 04 p.m.	0.14	0.14	0.14
from 04 p.m. to 07 p.m.	0.07	0.07	0.07
from 07 p.m. to 08 a.m.	0.04	0.04	0.04
on weekends and holidays			
from 08 a.m. to 07 p.m.	0.07	0.07	0.07
from 07 p.m. to 08 a.m.	0.04	0.04	0.04

In spite of the rates increment the average income per 1 telephone number from all subscribers categories amounted in 2002 to 798.7 RUR, which corresponds to 75% of one telephone number annual maintenance costs.

**Dynamics of the terminal devices usage subscription charges and one telephone number maintenance costs.**

№	Indicators	2002			
		1 quarter	2 quarter	3 quarter	4 quarter
1.	1 telephone number monthly maintenance costs without VAT, RUR (method of the Federal Agency for Regulation of Natural Monopolies in Communications)	71.87	84.60	86.76	98.53
2.	Monthly subscription charge, RUR:				
2.1	For the natural persons – rate (maximum), without VAT and sales tax	58.30	58.30	58.30	70.80
2.2	For the natural persons – average local telephone exchange rate including 100% charges for the privileged categories, without VAT and sales tax	54.28	54.17	54.59	66.31
2.3	For the organization not funded from the appropriate budgets – urban rate, before taxes	100.0	100.0	100.0	110.0
2.4	For the organization funded from the appropriate budgets – urban rate, before taxes	100.0	100.0	100.0	110.0
3.	Mean monthly earnings per 1 telephone number across all subscribers categories before taxes, RUR	62.42	64.55	64.17	75.19
4.	Relation to one telephone number maintenance costs of, %				
4.1	Urban rate for the natural persons (maximum)	81.12	68.91	67.20	71.86
4.2	Average rate including 100% charges for the privileged categories – for the natural persons	75.53	64.03	62.92	67.30
4.3	Average earnings per 1 telephone number across all subscribers categories	86.85	76.30	73.96	76.3



The main payment system to reimburse the local telephone calls provision effective in 2002 was the subscription system that did not account for the actual network resources usage. The time-charged payment system was in force only for the legal entities – subscribers of the Ivanovo city network. As of the end of 2002 the number of subscribers that reimburse the services on per-minute basis amounted to 14127 users, which was 6.77% of the overall activated capacity in the Ivtelecom network. The income received from providing the local telephone calls based on the time-charged payment system amounted to 23.083 million RUR.

**Voronezhsvyazinform - A subsidiary (branch) of JSC CenterTelecom**

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 1 quarter 2002	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
<b>1</b>	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set			1599	2440	139574,9	28418,6
	natural persons	6000,00	6000,00	-	-	117847,2	-
	budget funded organizations	6000,00	6000,00	-	-	3465,1	-
	non-budget funded organizations	6000,00	6000,00	-	-	18262,6	-
<b>2</b>	Provision of access to a rural telephone network (STS) - basic telephone set			950	2455	18176,6	3797,9
	natural persons	4000,00	4000,00	-	-	16239,3	-
	budget funded organizations	4000,00	4000,00	-	-	360,3	-
	non-budget funded organizations	4000,00	4000,00	-	-	1577,0	-
<b>3</b>	Local phone service under monthly rental arrangements for GTS			60,61**)	71,73**)	39873,0	327,2**)
	natural persons	70,00	80,00	-	-	29380,7	-
	budget funded organizations	90,00	100,00	-	-	3669,5	-
	non-budget funded organizations	90,00	100,00	-	-	6822,8	-
<b>4.1</b>	Local telephone service under per-minute billing for GTS (the constant part)			**)	**)	82477,9	**)
	natural persons	21,00	24,00	-	-	69243,9	-
	budget funded organizations	27,00	30,00	-	-	4407,4	-
	non-budget funded organizations	27,00	30,00	-	-	8826,6	-
<b>4.2.</b>	Local telephone service with per-minute billing (variable component) for rural networks (STS):			**)	**)	253169,6	**)
	Natural persons	0,14	0,16	-	-	174442,1	-
	budget funded organizations	0,14	0,16	-	-	21345,4	-
	non-budget funded organizations			-	-		-

		0,14	0,16			57382,1	
<b>5</b>	Local telephone service under monthly rental arrangements for rural networks (STS):			71,72***)	98,08***)	81568,1	133,8***)
	Natural persons	70,00	80,00	-	-	64671,1	-
	budget funded organizations	90,00	100,00	-	-	6158,0	-
	non-budget funded organizations	90,00	100,00	-	-	10739,0	-
<b>6.1</b>	Local telephone service with per-minute billing for rural networks (STS) (constant part):			***)	***)	2551,3	***)
	Natural persons	21,00	24,00	-	-	1932,1	-
	budget funded organizations	27,00	30,00	-	-	280,8	-
	non-budget funded organizations	27,00	30,00	-	-	338,4	-
<b>6.2</b>	Local VTN call in per-minute billing system (variable component)			***)	***)	5002,1	***)
	Natural persons	0,14	0,16	-	-	3268,4	-
	budget funded organizations	0,14	0,16	-	-	772,1	-
	non-budget funded organizations	0,14	0,16	-	-	961,6	-
<b>7</b>	Long distance call	3,04	2,32	0,78	0,65	518339	181092,7
	Inland telegram	0,60	0,80	28,06	24,74	13228,6	11952,1

\*- For service 7 an average charge is specified \*\*) – item 3+ item 4.1.+ item 4.2., \*\*\*) – item 5+ item 6.1.+ item 6.2), because there is no subscription/per-minute tariff division.

Information.

1. Tariff changes in 2002:

- Local telephone service – from January 01, 2002 (MAP RF Order no. 1323 dated Dec 18, 2001), from July 10, 2002 (MAP RF Order no. 515 dated June 25, 2002)
- Telegraph service – From Jan 10, 2002 (MAP RF Order no. 1395 dated Dec 19, 2001), from Dec 10, 2002 (MAP RF Order no. 785 dated Nov 20, 2002)

2. Tariff benefits:

In 2002, 178735 clients enjoyed reduced rates to a total amount of 56,078 million RUR, 25,86 million RUR of compensation was received; 178779 clients were granted discounted service subscription to a total of 7,69 million RUR, compensation received – 3,181 million RUR; free initial installation was provided in 1003 cases with a total of 4,664 million RUR.

3. Per-minute billing system (ACB):

- Total number of per-minute billing system clients – 387345; ACB revenues in 2002 – 343 325 675 RUR.

### Kaluga subsidiary (branch) of JSC CenterTelecom

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set			15000.00	15000.00	32160,0	
	Natural persons						
	- users of analog switching service	3000.00	3000.00			17540,0	
	- users of digital switching service	4000.00	6000.00				
	budget funded organizations	6000.00	7000.00			2718,0	
	non-budget funded organizations	6000.00	7000.00			11902,0	
2	Provision of access to a rural telephone network (STS) - basic telephone set					3759,0	
	Natural persons					2724,0	
	- users of analog switching service	3000.00	3000.00				
	- users of digital switching service	4000.00	6000.00				
	budget funded organizations	6000.00	7000.00			425,0	
	non-budget funded organizations	6000.00	7000.00			3149,0	
3	Local phone service under monthly rental arrangements for GTS			64,6	75,1	172413,0	181,3

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	natural persons	70.00	85.00			133947,0	
	budget funded organizations	100.00	110.00			13471,0	
	non-budget funded organizations	100.00	110.00			24995,0	
4.1	Local telephone service under per-minute billing for GTS (the constant part)						
	natural persons	X	X				
	budget funded organizations	X	X				
	non-budget funded organizations	X	X				
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						
	natural persons	X	X				
	budget funded organizations	X	X				
	non-budget funded organizations	X	X				
5	Local telephone service under monthly rental arrangements for rural networks (STS):			185,9	215,5	20102,0	65,7
	natural persons	70.00	85.00			14803,0	
	budget funded organizations	100.00	110.00			2440,0	

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	non-budget funded organizations	100.00	110.00			2859,0	
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):						
	natural persons	X	X				
	budget funded organizations	X	X				
	non-budget funded organizations	X	X				
6.2	Local VTN call in per-minute billing system (variable component)						
	natural persons	X	X				
	budget funded organizations	X	X				
	non-budget funded organizations	X	X				
7	Long distance call	2,4	2,24	1,34	1,42	298344,0	161,1
8	Inland telegram	0,70	0,80	94,7	108,4	5049,0	29,3

\*- For service 7 an average charge is specified

Three tariff increases for local telephone services took place within one year:

- From January 1, 2002

Monthly subscription for individual clients became – RUR70, for businesses – RUR100,

Provision of telephone network access

for natural persons - users of analog switching service – 3000 RUR,  
users of digital switching service – 4000 RUR,  
for businesses – 6000 RUR;

- From March 1, 2002

Provision of telephone network access

for natural persons - users of analog switching service – 3000 RUR,  
users of digital switching service – 6000 RUR,  
for businesses – 7 Provision of telephone network access

for natural persons - users of analog switching service – 3000 RUR,  
users of digital switching service – 4000 RUR,  
for businesses – 7000 RUR;

- From October 1, 2002

Monthly subscription for individual clients became – 85 RUR, businesses – 110 RUR.

In 2002 a total of 48166,3 RUR was lost to rate benefits, of which 21037,0 RUR or 43,7 % was compensated.

**Kostromatelecom - A subsidiary (branch) of JSC CenterTelecom**

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set			6285,4	7892,6	17145,1	1883,4
	Natural persons	4500	Analog 5000 Digital 6500			14244,2	
	budget funded organizations	5500	Analog 6000 Digital 8000			794,3	
	non-budget funded organizations	5500	Analog 6000 Digital 8000			2106,6	
2	Provision of access to a rural telephone network (STS) - basic telephone set			6285,4	7892,6	5529,5	2690,6
	Natural persons	4500	Analog 5000 Digital 6500			4679,2	
	budget funded organizations	5500	Analog 6000 Digital 8000			315,0	
	non-budget funded organizations	5500	Analog 6000 Digital 8000			535,3	
3	Local phone service under monthly rental arrangements for GTS			71,06	79,12	39900,2	37668,4
	Natural persons	75	85			27321,1	

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	budget funded organizations	125	150			5393,9	
	non-budget funded organizations	150	150			7185,2	
4.1	Local telephone service under per-minute billing for GTS (the constant part)						
	Natural persons						
	budget funded organizations						
	non-budget funded organizations						
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						
	Natural persons						
	budget funded organizations						
	non-budget funded organizations						

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
5	Local telephone service under monthly rental arrangements for rural networks (STS):			116,33	135,33	35747,6	50583,3
	Natural persons	75	85			21616,6	
	budget funded organizations	125	150			4113,8	
	non-budget funded organizations	150	150			10017,2	
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):						
	Natural persons						
	budget funded organizations						
	non-budget funded organizations						
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	Natural persons						
	budget funded organizations						
	non-budget funded organizations						
7	Long distance call	2,48	2,54	1,75	1,93	131224,9	95247,3
8	Inland telegram	0,60	0,80	37,06	103,03	3516,7	18834,2

\*- For service 7 an average charge is specified

1. Tariff changes in 2002

- From Jan 01, 2002 local and long distance call tariffs were modified for budget funded organizations;
- From Jan 10, 2002 changes in telegraph service charges;
- From July 10, 2002 changes in local telephone service tariffs;
- From Dec 12, 2002 changes in telegraph service charges;
- From Jan 01, 2003 long distance call tariffs were modified for budget funded organizations.

**2. In 2002 as in earlier years, KostromaTelecom continued to provide reduced rates to socially unadapted groups of customers in full conformity with norms and regulations applied in the Russian Federation.**

As many as 85 794 customers enjoyed rate reductions in 2002, of which 28 814 for telephone services and 56 980 for line radio services.

Reduction totals reached a figure of RUR17 547 700 in telephone service installation fees and subscription and RUR3 498 126 RUR in radio service subscription.

The branch has well established relationships with social security departments in a bid to secure compensation for lost profit relating to subscription fee rate cuts and free terminal installations provided to Victims and Veterans of WW2. Compensations with a total of 14 820 850 RUR were received in 2002. In fact, free terminal installations provided to Victims and Veterans of WW2 (Decree by the Governor of Kostroma region) were compensated from the regional budget 99% (as of April 04, 2003). The subscription fee rate cuts were compensated to the extent of allocations allowed by the federal budget for Kostroma region.

The 50% radio service subscription fee rate cuts are compensated from municipal budget. 2002 reports show that municipal authorities traditionally fail to attach due importance to compensations for free radio services: only 1 326 944 RUR was received, which is 38% of total costs.

### 3. Data on capacities of per-minute billing system (ACB) of KostromaTelecom.

No.	Installed capacity of GTS	Installes GTS capacity equipped with ACB	Installed STS capacity	Installed STS capacity with ACB	Total capacity	Total ACB capacity
1	55200	15428	45779	1736	100979	17161

ACB currently is not in use.

The existing network is not currently being upgraded to ACB. When a telephone exchange is replaced (a new exchange added) ACB equipment is supplied.

### Kursk subsidiary (branch) of JSC CenterTelecom

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set			9665	10980	34157,43	60488
	natural persons	7000	7000			25973,73	47653
	budget funded organizations	7000	7000			2056,25	3228
	non-budget funded organizations	7000	7000			6127,45	9607
2	Provision of access to a rural telephone network (STS) - basic telephone set			3326	3997	4500,11	5744
	natural persons	3500.2000	3500.2000			3846,61	5092
	budget funded organizations	7000.4000	7000.4000			142,30	140
	non-budget funded organizations	7000.4000	7000.4000			511,20	512
3	Local phone service under monthly rental arrangements for GTS			62,06	72,70	112664,33	127557
	natural persons	70	80			84030,13	107299

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	budget funded organizations	90	100			12075,65	8067
	non-budget funded organizations	90	100			16558,55	12190
4.1	Local telephone service under per-minute billing for GTS (the constant part)						
	natural persons						
	budget funded organizations						
	non-budget funded organizations						
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						
	natural persons						
	budget funded organizations						
	non-budget funded organizations						

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
5	Local telephone service under monthly rental arrangements for rural networks (STS):			93,05	109,0	22567,7	41981
	natural persons	70	80			16103,84	34333
	budget funded organizations	90	100			2896,99	3032
	non-budget funded organizations	90	100			3566,87	4616
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):						
	natural persons						
	budget funded organizations						
	non-budget funded organizations						
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	Natural persons						
	budget funded organizations						
	non-budget funded organizations						
7	Long distance call	2,38	2,58	1,08	1,17	213416,2	99554
8	Inland telegram	0.60	0.80	70,91	85,40	4961,2	25643

\* - For service 7 an average charge is specified

In 2002 telephone service tariffs did not change.

Local telephone service monthly charge in subscription billing system was changed twice in a year: from January 1 and from September 1. Compared to tariffs as of the end of 2001, monthly fee for natural persons was increased by 45%, budgeted funded organizations – 53%, non-budget funded organizations – 25%.

Long distance per-minute tariffs for budget funded organizations were changed twice over the year: in January and from September 1; average tariff growth being 40%.

For individual customers and non-budget funded businesses long distance per-minute tariffs were increased from December 1 by 3,6% on the average.

Telegraph service tariffs (inland telegram) were modified twice: from January 10 and from December 10. Overall average growth being 30% compared to 2001.

Non-variable communication service tariffs were revised twice: from September 1 and December 1.

In 2002, 41377 RUR in thousands was spent on rate benefits in accordance with current laws, including 34251 RUR in thousands in local telephone service charges and 7126 RUR in thousands in line radio charges. 17030 RUR in thousands out of that sum was compensated, including 12331 RUR in thousands for local telephone service charges and 4699 RUR in thousands for line radio charges.

Per-minute billing system in local telephone network was not introduced. At present, 46,2% of installed telephone exchange capacities of the city network support per-minute billing (ACB).

**Lipetskelektrosvyaz - A subsidiary (branch) of JSC CenterTelecom**

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set			8405	11280	59 666,7	194 451,0
	natural persons	6000.00 4200.00	6000.00 4200.00	7 831	10 912	47 910,3	160 637,8
	budget funded organizations	6000.00	6000.00	8 840	12 429	1 727,2	5 061,1
	non-budget funded organizations	7000.00	7000.00	8 840	12 429	10 029,2	28 752,1
2	Provision of access to a rural telephone network (STS) - basic telephone set			7500	8840	12 938,1	48 089,2
	Natural persons	4000.00 3500.00	4000.00 3500.00			11 191,0	44 440,4
	budget funded organizations	6000.00	6000.00			558,4	1 442,3
	non-budget funded organizations	7000.00	7000.00			1 188,7	2 206,5
3	Local phone service under monthly rental arrangements for GTS			56,03	64,49	154 017,7	143 520,0
	Natural persons	70.00	80.00			121 306,0	123 627,0

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	budget funded organizations	90.00	100.00			12 084.1	7917.0
	non-budget funded organizations	90.00	100.00			20 627.6	11 976.0
4.1	Local telephone service under per-minute billing for GTS (the constant part)						
	Natural persons						
	budget funded organizations						
	non-budget funded organizations						
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						
	Natural persons						
	budget funded organizations						
	non-budget funded organizations						

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
5	Local telephone service under monthly rental arrangements for rural networks (STS):			172.02	202.68	48 554.6	141 675.0
	Natural persons	70.00	80.00			37 966.5	121 723.0
	budget funded organizations	90.00	100.00			4 625.1	8 885.0
	non-budget funded organizations	90.00	100.00			5 963.0	11 067.0
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):						
	Natural persons						
	budget funded organizations						
	non-budget funded organizations						
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	Natural persons						
	budget funded organizations						
	non-budget funded organizations						
7	Long distance call	2.63	2.42	1.23	0.96	264 851.3	105 430.0
8	Inland telegram	Per word 0.70	0.80	35.0	43.0	3 920.1	48 635.0

\*- For service 7 an average charge is specified

The text should contain information on:

- tariff modifications in year under review;
- rate benefits granted to certain consumer categories (total revenues from reduced-rate services and sums not compensated from the budgeted for such services, etc.);
- progress towards a per-minute billing system in local telephone network (number of customers switched over to ACB, revenues from ACB customer group, etc.).

- The following state-regulated rates upgrades were recorded in 2002:
- Long-distance telephone communication – for the organizations funded from appropriate budgets – effective January 01, 2002.
  - Inland telegram - for all categories – effective January 17, 2002.  
effective December 10, 2002.
  - Local telephone calls provision for all categories – effective September 01, 2002.

2. In 2002 the number of the Lipetskelektrosvyaz subscribers entitled to the benefits amounted to 99968 persons.

**The income amount charged** to the privileged subscribers categories amounted to 49,468,660 RUR.

**The income received from** the privileged subscribers categories amounted to 42,670,700 RUR.

**The amount not compensated by the budget** as of January 01, 2003 – 11,550,670 RUR.

3. The progress of implementing the time-charged payment of the local telephone calls costs:

Subject to the Antimonopoly Ministry order # 437 dated May 14, 2002 About approving the tariffs calculation procedure for local telephone calls with the time-charged telephone communication services payment system the statistical survey of the average local calls duration per categories – the natural persons, organizations, - are underway for the purpose of subsequent calculation of the subscription charge and local connection unit rate.

The full set of the time-charged recording equipment is available in Lipetsk in order to implement the time charging system.

**Moscow subsidiary (branch) of JSC CenterTelecom**

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set					305572	23468
	Natural persons	3500	5000	7050	10500	250675	19252
	budget funded organizations	3500	10000	7050	10500	9888	759
	non-budget funded organizations	5000	10000	7050	10500	45009	3457
2	Provision of access to a rural telephone network (STS) - basic telephone set					23512	1498
	Natural persons	2000	3000	4570	4250	19621	1250
	budget funded organizations	2000	5000	4570	4250	537	34
	non-budget funded organizations	4000	8000	4570	4250	3354	214
3	Local phone service under monthly rental arrangements for GTS					1065582	1205788
	Natural persons	90	110	69.5	102.1	896470	1014425

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	budget funded organizations	90	120	69,5	102,1	64945	73490
	non-budget funded organizations	110	120	69,5	102,1	104167	117873
4.1	Local telephone service under per-minute billing for GTS (the constant part)					59552	64827
	Natural persons	70	80	69,5	102,1	44975	48958
	budget funded organizations	75	90	69,5	102,1	6552	7133
	non-budget funded organizations	85	100	69,5	102,1	8025	8736
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):					18577	25932
	Natural persons	3	3	69,5	102,1	13344	18627
	budget funded organizations	8	10	69,5	102,1	2120	2959
	non-budget funded organizations	3	5	69,5	102,1	3113	4346

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
5	Local telephone service under monthly rental arrangements for rural networks (STS):					131010	249021
	Natural persons	90	110	132.6	160.4	105671	224651
	budget funded organizations	90	120	132.6	160.4	9901	14322
	non-budget funded organizations	110	120	132.6	160.4	15438	25943
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):					7391	13246
	Natural persons	59	71	132.6	160.4	6319	11325
	budget funded organizations	53	69	132.6	160.4	336	602
	non-budget funded organizations	77	100	132.6	160.4	736	1319
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):					455	2649

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	Natural persons	3	3	132.6	160.4	225	1309
	budget funded organizations	8	10	132.6	160.4	57	332
	non-budget funded organizations	4	5	132.6	160.4	173	1008
7	Long distance call	2.32	2.36	1.50	1.56	1405447	1042932
8	Inland telegram	0.6	0.6		19.02	30096	192856

\*- For service 7 an average charge is specified

### Explanatory notes

JSC CenterTelecom order # 676 dated December 21, 2001 effected new price lists for the state-regulated local telephone communication services rates and also the rates for provision of the time-charged local telephone calls.

The order # 86 dated February 27, 2002 introduced new price lists for the local telephone communication services effective March 01, 2002.

Order # 448 dated August 22, 2002 effected new price lists for the local telephone communication services regulated by the Russian Antimonopoly ministry and also for provision of time-charged local telephone calls.

The value of the communication services payment benefits granted to the citizens in 2002 pursuant to the RF laws and non-compensated amounts of the not received income amounted respectively to:

- local telephone communication RUR274,351,340 RUR and RUR175,949,490.
- wire broadcasting RUR23,901,930 RUR and RUR4,113,110.

In 2002 the number of the subscribers transferred to the time-charged local telephone calls payment system amounted to 106081.

The installed numbers capacity equipped with the time-charging devices in urban telephone networks amounted to – 675921, in rural networks (STS) – 38412.

The subscription fee revenues with the time-charged services payment system in place amounted to:

- fixed charges – RUR66,943,000 (including RUR59,552,300 for urban (GTS) and RUR7,390,700 for rural networks (STS)).
- variable charges – 19,031,500 RUR (including RUR18,576,700 for urban (GTS), and RUR454,800 for rural telephone networks).

The costs of provision access to urban telephone networks indicated in the table (paragraph N1) correspond to the expenses charged to the production costs. In 2002 the capital investments spent on automatic exchanges construction amounted to RUR829,563,000, including RUR793,446,000 for rural and RUR 36,117,000 for urban telephone networks. The capital expenditures to commission for operation fixed production assets amounted to RUR350,665,000 for urban telephone networks and to RUR 17,947,000 for rural networks.

**Orel subsidiary (branch) of JSC CenterTelecom**

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set	X	X	764,50	998,05	27234	3461
	Natural persons			X	X	X	X
	- users of step-by-step telephone exchange systems	3000.00	3000.00				
	- users of crossbar and electronic telephone exchange systems	4000.00	4000.00				
	- users of digital telephone exchange systems	5000.00	5000.00				
	budget funded organizations			X	X	X	X
		5000.00	5000.00				
	non-budget funded organizations			X	X	X	X
		5000.00	5000.00				
2	Provision of access to a rural telephone network (STS) - basic telephone set	X	X	532.50	633.49	2733	661
	Natural persons			X	X	X	X
	- users of ten-step telephone exchange systems	1000.00	1000.00				
	- users of coordinate and electronic telephone exchange systems	2000.00	2000.00				
	- users of digital telephone exchange systems	3000.00	3000.00				
	budget funded organizations			X	X	X	X
		5000.00	5000.00				
	non-budget funded organizations			X	X	X	X
		5000.00	5000.00				
3	Local phone service under monthly rental arrangements for GTS	X	X	61.04	65.33	95427	111890
	natural persons			X	X	X	X
		60,00	80,00				
	Service	Tariff at the beginning of	Tariff at the end of the year*.	Unit costs at the beginning of the	Unit costs at the end of the year.	Services annual revenues, RUR	Services annual costs, RUR in

No.		beginning of the year*, RUR	of the year*, RUR	beginning of the year, RUR	end of the year, RUR	revenues, RUR in thousands	costs, RUR in thousands
	budget funded organizations	90,00	110,00	X	X	X	X
	non-budget funded organizations	90,00	110,00	X	X	X	X
4.1	Local telephone service under per-minute billing for GTS (the constant part)	X	X	X	X	X	X
	natural persons	X	X	X	X	X	X
	budget funded organizations	X	X	X	X	X	X
	non-budget funded organizations	X	X	X	X	X	X
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):	X	X	X	X	X	X
	natural persons	X	X	X	X	X	X
	budget funded organizations	X	X	X	X	X	X
	non-budget funded organizations	X	X	X	X	X	X

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
5	Local telephone service under monthly rental arrangements for rural networks (STS):	X	X	93,97	108,56	18640	38658
	natural persons	55,00	75,00	X	X	X	X
	budget funded organizations	90,00	110,00	X	X	X	X
	non-budget funded organizations	90,00	110,00	X	X	X	X
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):	X	X	X	X	X	X
	natural persons	X	X	X	X	X	X
	budget funded organizations	X	X	X	X	X	X
	non-budget funded organizations	X	X	X	X	X	X
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):	X	X	X	X	X	X

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	natural persons	X	X	X	X	X	X
	budget funded organizations	X	X	X	X	X	X
	non-budget funded organizations	X	X	X	X	X	X
7	Long distance call	3,29	3,05	1,49	1,39	182069	83710
8	Inland telegram (per word)	0,60	0,80	62,93	73,88	3374	13328

\*- For service 7 an average charge is specified

**Explanatory note– Orel branch**

1) The public rates are VAT-inclusive. The rates for organizations are indicated without VAT.

2) In 2002 the fee for provision access to the telephone network was not updated.

3) In 2002 the local telephone calls (call) rates were updated one time effective November 1, 2002.

for natural persons, city exchange – 80.00 RUR, rural exchange – 45 RUR;

for organizations, city and rural exchanges (VTN) – 110 RUR.

4) In 2002 the inland telegrams rates were updated two times:

Effective January 10, 2002: natural persons – 0.70 RUR, organizations – 0.70 RUR.

Effective December 10, 2002: natural persons – 0.80 RUR, organizations – 0.80 RUR.

5) In 2002 the revenues received from services provided to the privileged subscribers categories amounted to 17,227,810 RUR, the sum not compensated by the budget for the services provided to the privileged subscribers categories amounted to 11,828,460 RUR.

6) At the moment the time-charged local calls system is not implemented in the Orel branch of JSC CenterTelecom . Equipment for per-minute billing for telephone calls is installed in all automatic telephone exchanges of Orel city. In November 2002 pursuant to the guidelines issued by Russian Antimonopoly Ministry the per-minutes rates in Orel were calculated and submitted for consideration to the Orel region department of the Russian Antimonopoly Ministry. The reply by the territorial department of the Russian Antimonopoly Ministry with appropriate estimates was sent to JSC CenterTelecom in January 2002.

**Ryazan subsidiary (branch) of JSC CenterTelecom**

No.	Service	Tariff as of beginning of 2002, RUR	Tariff as of end of 2002, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services revenues in 2002, RUR in thousands	Services cost in 2002, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set	x	x	7544*	7610*	50716	2907
	natural persons	5500	5500	x	x	38577	2656
	budget funded organizations	5500	7500	x	x	2548	72
	non-budget funded organizations	5500	7500	x	x	9591	179
2	Provision of access to a rural telephone network (STS) - basic telephone set			4760	4760	4072	4940
	natural persons	5500*50% (allowed discount) 2750	3000	x	x	3647	4940
	budget funded organizations	5500*50% (allowed discount) 2750	Analog. 6500 Digital. 7500	x	x	154	-
	non-budget funded organizations	5500*50% (allowed discount) 2750	Analog. 6500 Digital. 7500	x	x	271	-
3	Local phone service under monthly rental arrangements for GTS	x	x	71	86	124250	184685

	natural persons	60	85	x	x	94093	159250
	budget funded organizations	70	105	x	x	12913	9485
	non-budget funded organizations	90	105	x	x	17444	15950
No.	Service	Tariff as of beginning of 2002, RUR	Tariff as of end of 2002, RUR	Unit costs in 4 quarter 2001, RUR	Unit costs in 4 quarter 2002, RUR	Services revenues in 2002,RUR in thousands	Services cost in 2002, RUR in thousands
4.1	Local telephone service under per-minute billing for GTS (the constant part)	-	-	-	-	-	-
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):	-	-	-	-	-	-
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-
5	Local telephone service under monthly rental arrangements for rural networks (STS):	x	x	129	155	18346	55021
	natural persons	60	85	x	x	13409	45965
	budget funded organizations	70	105	x	x	2336	3500
	non-budget funded organizations	90	105	x	x	2601	5550

No.	Service	Tariff as of beginning of 2002, RUR	Tariff as of end of 2002, RUR	Unit costs in 4 quarter 2001, RUR	Unit costs in 4 quarter 2002, RUR	Services revenues in 2002, RUR in thousands	Services cost in 2002, RUR in thousands
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):	-	-	-	-	-	-
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):	-	-	-	-	-	-
	Natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-
7	Long distance call	3,18**	3,22**	1,83	1,76	271695	147955
8	Inland telegram	0,60	0,80	2,99***	3,35***	6408	22023

\* Costs of provision access to GTS were calculated taking into account capital investment.

\*\* For long distance telephone call service an average per-minute charge is specified.

\*\*\* Unit costs per word of simple telegram.

1. Tariff modifications in 2002:

- 1.1. Beginning from January 1, 2002 unified monthly rentals (subscription fees) for local telephone service were introduced for budget funded and non-budget funded organizations; from September 1, 2002 the tariffs were increased by 20% on average.
- 1.2. Beginning from September 1, 2002 the upper limit of charge for starting-up telephone network user service for both budget and non-budget organizations was set at 7500 RUR, that is, increased by 36%.
- 1.3. Long distance per-minute rates for budget funded organizations were increased by 20% beginning from January 1, 2002.
- 1.4. Inland telegram tariffs on the average rose by 17% beginning from January 10, 2002 and by another 18% beginning from December 10, 2002.
2. The following rate benefits were granted to concerned consumer categories in accordance with Federal Laws On Veterans, On Social Protection for the Disabled in RF and On Social Protection for the Victims of Chernobyl NPP Disaster:
  - 2.1. For urban networks RUR 40173 thousand were spent to cover benefits in 2002, RUR22417 thousand of that money were compensated from the budget in 2002,

RUR17756 thousand were registered as non-compensated losses in 2002.  
2.2. In rural networks RUR 6017 thousand were spent to cover benefits in 2002,  
of which RUR5121 thousand were compensated from the budget in 2002, RUR896 thousand were registered as non-compensated losses in 2002.

***Tambovskaya Elektrosvyaz – A subsidiary (branch) of JSC CenterTelecom***

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set			8309	8309	37669.4	13260.7
	natural persons	3500	5000			29593.4	11404.3
	budget funded organizations	6000	6000			2299.3	477.9
	non-budget funded organizations	6000	6000			5776.7	1378.5
2	Provision of access to a rural telephone network (STS) - basic telephone set			6382	6382	10863.1	6122.7
	natural persons	1500	2500			9813.1	5266.1
	budget funded organizations	6000	6000			311.6	220.7
	non-budget funded organizations	6000	6000			738.4	635.9
3	Local phone service under monthly rental arrangements for GTS			64.25	72.65	130543.1	129125.1
	natural persons	70	85			107529.8	112944.4

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	budget funded organizations	90	110			10632.4	6787.7
	non-budget funded organizations	90	110			12380.9	9393.0
4.1	Local telephone service under per-minute billing for GTS (the constant part)						
	natural persons						
	budget funded organizations						
	non-budget funded organizations						
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						
	natural persons						
	budget funded organizations						
	non-budget funded organizations						

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
5	Local telephone service under monthly rental arrangements for rural networks (STS):			87,43	91,65	37981,9	52143,6
	natural persons	70	85			31915,9	45473,5
	budget funded organizations	90	110			3068,2	2788,3
	non-budget funded organizations	90	110			2997,8	3881,8
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):						
	natural persons						
	budget funded organizations						
	non-budget funded organizations						
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	natural persons						
	budget funded organizations						
	non-budget funded organizations						
7	Long distance call	2.08	2.08	0.70	0.70	180385.1	60176.4
8	Inland telegram	14.64	16.88	21.51	27.40	5246.4	7828.2

\* - For service 7 average charge per minute in 4 quarter 2001 (for beginning of 2002) and in 4 quarter 2002 (for end of 2002) is specified;  
For service 8 average charge per telegram in 4 quarter 2001 (for beginning of 2002) and in 4 quarter 2002 (for end of 2002) is specified.

**EXPLANATORY NOTE**

to the Rates information table

A subsidiary (branch) of JSC CenterTelecom – Tambovskaya elektrosvyaz

In 2002 the Russian Federation Ministry of Antimonopoly Policies and Support for Entrepreneurship updated the rates for the local and long-distance telephone communication and also for the telegraph communication.

The telephone usage subscription fee was updated effective January 1, 2002, for the natural persons – 70 RUR, for organizations – 90 RUR. (the following rates were effective prior to January 1, 2002: for the natural persons – 55 RUR, for budget-funded organizations – 65 RUR, for self-sustained institutions – 90 RUR) and effective October 1, 2002 for the natural persons – 85 RUR, for organizations – 110 RUR.

Effective January 7, 2002 the tariffs for provision access to the telephone network for the natural persons category were updated. The maximum rate updated by the RF Antimonopoly Ministry for the urban and rural communities amounted to 5000 RUR. (instead of 3500 RUR effective as of the beginning of 2002). The order of JSC Tambovskaya elektrosvyaz established the discounted rate for the rural communities in the amount of up to 2500 RUR depending on the consumer demand.

Rates for long-distance telephone calls effective prior to January 1, 2002 per 1 minute of connection on weekdays from 7.00 a.m. until 09.00 p.m. in the first tariff band (up to 100 km) amounted to 2.00 RUR for the natural persons and self-sustained organizations and 1.10 RUR for the budget-funded organizations. The reduced rates (from 09.00 p.m. to 07.00 a.m.) were provided with the 50% discounts for the natural persons and self-sustained organizations and 30% discount for the budget-funded organizations.

Effective January 1, 2002 the Russian Antimonopoly Ministry approved the rates of RUR1.32 per minute for budget-funded organizations, the rates for the natural persons and for self-financing institutions remained unchanged. The preferential time discount amounted to 25% for the natural persons and the self-sustained organizations and remained the same for the budget-funded organizations.

The rate per one word of regular inland telegram for all user categories was updated effective January 22, 2002, – RUR0.70 (as of January 1, 2001 – RUR0.60), effective December 13, 2002 – RUR0.80.

In 2002 the benefits provided pursuant to the RF Federal Laws On veterans, On social protection of the disabled persons in the RF, On the status of Soviet Union Heroes, the Russian Federation Heroes and full companions of the Glory medal, On social protection of the citizens exposed to the radiation due to the Chernobyl Nuclear Power Plant disaster, On the political repressions victims rehabilitation amounted to RUR42,639,000 including VAT, including the ones for the local telephone communication services – RUR36,159,000, the wire broadcasting services – 6,480,000 RUR.

In 2002 the compensated benefits amounted to RUR17,735,000 or 26.7% of the provided benefits value adjusted to the last year balance (RUR66,514,000). As of January 1, 2003, equipment for per-minute billing were installed for 153774 subscribers at urban telephone exchanges, which is 80.4% of the urban exchange installed capacity, and for 18110 subscribers at rural telephone exchanges, which is 31.7% of the rural exchange installed capacity. The time-charging equipment is not commercially operated due to the region administration refusal to grant permission to activate the time-charged local call billing system.

**SmolenskTelecom-A subsidiary (branch) of JSC CenterTelecom**

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set (Analog/ Digital.)						
	natural persons	3500,00/ 4000,00	3500,00/ 5000,00	5037	5955	36049	51099
	budget funded organizations	6000,00/ 8000,00	6000,00/ 10000,00	5037	5955	3620	2185
	non-budget funded organizations	6000,00/ 8000,00	6000,00/ 10000,00	5037	5955	11479	5717
2	Provision of access to a rural telephone network (STS) - basic telephone set						
	natural persons	1200,00/ 2500,00	1800,00/ 2500,00	5037	5955	4157	8641
	budget funded organizations	5000,00/ 7000,00	5000,00/ 7000,00	5037	5955	220	1030
	non-budget funded organizations	5000,00/ 7000,00	5000,00/ 7000,00	5037	5955	537	-
3	Local phone service under monthly rental arrangements for GTS						
	natural persons	70	85	74,6	87,9	126493	160938

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	budget funded organizations	100	110	116,0	128,1	14529	14717
	non-budget funded organizations	100	110	116,2	137,8	22807	26228
4.1	Local telephone service under per-minute billing for GTS (the constant part)						
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
5	Local telephone service under monthly rental arrangements for rural networks (STS):						
	natural persons	60	70	96.4	131.6	20807	45695
	budget funded organizations	100	110	136.7	156.2	2987	4551
	non-budget funded organizations	100	110	140.6	204.8	4455	8123
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):						
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-
7	Long distance call	7.5	2.6	1.23	1.36	234935	115371
8	Inland telegram	0.70	0.80	71.8	78.70	4368	17835

\*- For service 7 an average charge is specified

#### Information:

In 2002 local telephone service tariffs were increased from January 1, 2002 (MAP Order no. 1318 dated Dec 18, 2001) and September 1, 2002 (MAP Order no. 605 dated Dec 12, 2002); telegraph service tariffs from January 10, 2002 (MAP Order no. 1395 dated Dec 19, 2001).

Total revenues from reduced rate services rendered to relevant customer categories were RUR 84230.3 thousand, amount not compensated from the budget for those services - RUR21101.2 thousand.

In 2002 preparation works were performed for the introduction of per-minute billing system (ACB) in Smolensk telephone network; trial operation was launched. In November 2002 ACB tariffs were issued by MAP. Beginning from February 1, 2003 per-minute billing system was introduced for legal entities, with consent of Head of Regional Administration.

**Tver subsidiary (branch) of JSC CenterTelecom**

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set	-	-	10850	11043	72251.6	130585
	natural persons	8000	8000	-	-	56453.9	112207
	budget funded organizations	10000	10000	-	-	4032.7	1698
	non-budget funded organizations	10000	10000	-	-	11765	16680
2	Provision of access to a rural telephone network (STS) - basic telephone set	-	-	10850	11043	4355.1	24643
	Natural persons	4000	4000	-	-	3596.2	23164
	budget funded organizations	10000	10000	-	-	151.1	739
	non-budget funded organizations	10000	10000	-	-	607.8	740
3	Local phone service under monthly rental arrangements for GTS	-	-	90.3	114.69	140062.3	199963
	natural persons	70	85	-	-	84883.6	155530

	budget funded organizations	100	120	-	-	20915.7	16371
	non-budget funded organizations	120	120	-	-	34263	28062
4.1	Local telephone service under per-minute billing for GTS (the constant part)	-	-	-	-	-	-
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):	-	-	-	-	-	-
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
5	Local telephone service under monthly rental arrangements for rural networks (STS):	-	-	222.1	246.92	25914.1	119418
	natural persons	60	70	-	-	18018.2	98420
	budget funded organizations	100	120	-	-	3674.7	7471
	non-budget funded organizations	100	120	-	-	4222.2	13527
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):	-	-	-	-	-	-
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):	-	-	-	-	-	-

No.	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	-	-	-	-	-	-
7	Long distance call	2.64	2.51	1.22	1.64	296949.7	157696
8	Inland telegram	0.70	0.80	71.12	68.46	7906.9	30056

The following variable communication services tariff modifications were introduced by Tver subsidiary (branch) of JSC CenterTelecom in 2002:

- for provision of access to local telephone network from September 1, 2002;
- for telegraph service from December 10, 2002.

Total revenues from reduced rate services to concerned consumer categories in 2002 are 39665 RUR in thousands. Sums not compensated from the budget for those services are 20707 RUR in thousands. A totals of 41900 RUR in thousands of services were provided at cut rates in 2002.

Per-minute billing has not been applied by Tver subsidiary (branch) of JSC CenterTelecom.

***Elektrosvyaz of the Vladimir region – a branch of JSC CenterTelecom***

No	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001	Unit costs at the end of the year, RUR, in 4 quarter 2002	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
<b>1</b>	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set			<b>6 275</b>	<b>6 781</b>	<b>80 615.3</b>	<b>170 342</b>
	natural persons					65 051.1	
	Analog	3 500	3 500			>>	
	Digital	5 500	7 000			>>	
	budget funded organizations	7 000	7 000			3 235.5	
	non-budget funded organizations	7 000	7 000			12 328.7	
<b>2</b>	Provision of access to a rural telephone network (STS) - basic telephone set			<b>no data</b>	<b>1 405</b>	<b>3 548.0</b>	<b>2 155</b>
	natural persons					2 560.3	
	Analog	1 750	1 750			>>	
	Digital	2 750	3 500			>>	
	budget funded organizations	7 000	7 000			211.1	
	non-budget funded organizations	7 000	7 000			776.6	
<b>3</b>	Local telephone service under per-minute billing for GTS (the constant part)			<b>59</b>	<b>89</b>	<b>192 388,1</b>	<b>251 655</b>
	natural persons	70	85			160 109.1	
	budget funded organizations	100	110			11 433.4	

	non-budget funded organizations	100	110			20 845.6	
No	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001.	Unit costs at the end of the year, RUR, in 4 quarter 2002.	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
<b>4.1.</b>	<b>Local telephone service under per-minute billing for GTS (the constant part)</b>					<b>18 345,9</b>	
	natural persons					-	
	budget funded organizations	89	98			8 580,4	
	non-budget funded organizations	89	98			9 765,5	
<b>4.2.</b>	<b>Local telephone service with per-minute billing (variable component) for rural networks (STS):</b>					<b>10 475,9</b>	
	natural persons					-	
	budget funded organizations	0.11	0.12			2 918.4	
	non-budget funded organizations	0.11	0.12			7 557.5	
<b>5</b>	<b>Local telephone service under monthly rental arrangements for rural networks (STS):</b>			<b>123.02</b>	<b>192.40</b>	<b>18 845.1</b>	<b>53 155</b>
	natural persons					13 571.0	
	budget funded organizations					2 057.5	
	non-budget funded organizations					3 216.6	
<b>6.1.</b>	<b>Local telephone service with per-minute billing for rural networks (STS) (constant part):</b>	-	-			-	-
	natural persons	-	-			-	

No	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001.	Unit costs at the end of the year, RUR, in 4 quarter 2002.	Services annual revenues, RUR in thousands	Services annual costs, RUR in thousands
	budget funded organizations	-	-			-	
	non-budget funded organizations	-	-			-	
<b>6.2.</b>	<b>Local telephone service with per-minute billing (variable component) for rural networks (STS):</b>	-	-			-	-
	natural persons	-	-			-	
	budget funded organizations	-	-			-	
	non-budget funded organizations	-	-			-	
<b>7</b>	<b>Long distance call</b>			<b>1.30</b>	<b>1.53</b>	<b>329 427.1</b>	<b>147 586</b>
	natural persons	2.48	2.51			139 176.7	
	budget funded organizations	1.85	2.18			19 905.7	
	non-budget funded organizations	4.82	4.86			170 344.7	
<b>8</b>	<b>Inland telegram</b>			<b>117.4</b>	<b>212.9</b>	<b>5 091.4</b>	<b>51 991</b>
	natural persons	0.60	0.70			4 113.9	
	budget funded organizations	0.60	0.70			236.1	
	non-budget funded organizations	0.70	0.70			741.4	

## Changes in the rates in 2002

Elektrosvyaz of the Vladimir region – a subsidiary (branch) of JSC CenterTelecom

In 2002 in the Vladimir region the local telephone communication services rates particularly the telephone subscription charge were upgraded two times, effective January 1, 2002 and November 1, 2002. Within a year the rates grew by 54.5% in the cities and by 40% in the countryside.

Tariffs for provision of an access to the telephone network (installation fees) were not changed.

The unregulated local telephone services rates grew on average by 10%.

The long-distance telephone rates grew by 21% only for the budget-funded organizations.

The telegraph services rates grew by 14%.

*Elektrosvyaz of the Vladimir region* continues to provide benefits to the veterans, disabled persons and to other privileged categories. That has a negative effect on the financial standing of *Elektrosvyaz Vladimir region* since the benefits compensation backlog of all budget levels amounted to RUR14.95 million as of January 1, 2003.

### Benefits in provisioning telephone and radio services (RUR in thousands)

#### The cost of benefits granted with respect to telecommunication services to citizens in 2002 pursuant to the RF laws, and the compensation amounts received from the budget.

Communication industry sub-sectors	Amount of the revenues missed due to the provision of the communication services benefits eligible for compensation (RUR in thousands)	Compensation amounts received from the budget (RUR in thousands)	Non-compensated revenues amounts (RUR in thousands)
Local telephone service	51 951.54	46 018.06	5 933.48
Wire broadcasting	5 865.59	4 783.78	1 081.81
<b>TOTAL</b>	<b>57 817.13</b>	<b>50 801.84</b>	<b>7 015.29</b>

Only the organizations of Vladimir city were transferred to the time-charged payment system: 5,104 budget-funded organizations and 7,923 businesses.

**Table 1. 2002 Tariffs Summary TulaTelecom - branch of JSC CenterTelecom**

No	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001.	Unit costs at the end of the year, RUR, in 4 quarter 2002.	Annual service revenues, RUR in thous.	Annual service costs, RUR in thous.
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set						
	natural persons	4200	4200	6 516.00	8 022.00	85 287.7	224 888.7
	budget funded organizations	5000	5000	6 516.00	8 022.00	2 301.3	4 003.0
	non-budget funded organizations	7000	7000	6 516.00	8 022.00	14 029.3	19 437.3
2	Provision of access to a rural telephone network (STS) - basic telephone set						
	natural persons	2625	2625	6 516.00	8 022.00	2 192.5	505.4
	budget funded organizations	2500	2500	6 516.00	8 022.00	27.7	1 965.4
	non-budget funded organizations	3500	3500	6 516.00	8 022.00	512.4	12 963.6
3	Local phone service under monthly rental arrangements for GTS						
	natural persons	73.5	89.25	71.93	76.36	199 726.7	267 357.7
	budget funded organizations	90	105	71.93	76.36	17 807.7	13 035.7
	non-budget funded organizations	90	105	71.93	76.36	9 473.9	6 830.1
4.1	Local telephone service under per-minute billing for GTS (the constant part)						
	natural persons	-	53.55	43.158	45.816	0.0	0.0
	budget funded organizations	-	53.5	43.158	45.816	558.3	460.3
	non-budget funded organizations	90	53.5	43.158	45.816	16 746.8	8 472.3
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):**						
	natural persons	-	0.11	0.08	0.09	0.0	

No	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001.	Unit costs at the end of the year, RUR, in 4 quarter 2002.	Annual service revenues, RUR in thous.	Annual service costs, RUR in thous.
	budget funded organizations	-	0.11	0.08	0.09	674.2	306.9
	non-budget funded organizations	0.09	0.11	0.08	0.09	5 687.5	5 648.2
5	Local telephone service under monthly rental arrangements for rural networks (STS):						
	natural persons	60	70	108.38	121.86	16 275.8	41 804.7
	budget funded organizations	90	105	108.38	121.86	2 527.0	2 804.4
	non-budget funded organizations	90	105	108.38	121.86	3 448.7	5 589.4
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):						
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	90	-	65.03	-	49.5	38.8
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):						
	natural persons	-	-	-	-	-	-
	budget funded organizations	-	-	-	-	-	-
	non-budget funded organizations	0.09	-	0.13	-	0.7	25.8
7	Long distance call	2.88	2.92	1.76	1.88	418 087.3	257 998.9
8	Inland telegram	15.05	18.76	42.48	41.25	6 529.3	18 272.6

\*- VAT included for natural persons; for service 7 an average charge is specified

\*\* - since 01.11.02 the variable fee component in per-minute tariffs is time-dependent; here the average tariff is specified.

Table 2 Local call tariffs dynamics 01.01.02 - 01.01.03

Subscribers class		Monthly fee (subscription tariffs), RUR.		Per-minute billing tariffs, RUR.									
				Subscription monthly rental*			Local call rates						
				since 01.01.02	since 01.09.02	since 01.11.02	since 01.01.02	since 01.09.02	since 01.11.2002				
									weekdays			weekends. & publ. holidays	
since 01.01.02	since 01.09.02				8.00 - 18.00	18.00 - 24.00	24.00 - 8.00	8.00 - 24.00	24.00 - 8.00				
<i>Natural persons</i>	CTN	70	85	-	-	51	-	-	0.12	0.1	0.08	0.1	0.8
	VTN	63	73.5	-	-	-	-	-	-	-	-	-	-
<i>Budget-funded organizations</i>	CTN	90	105	-	-	53.5	-	-	0.12	0.10	0.08	0.10	0.8
	VTN	90	105	-	-	-	-	-	-	-	-	-	-
<i>Self-funding enterprises</i>	CTN	90	105	90	105	53.5	0.09	0.11	0.12	0.10	0.08	0.10	0.8
	VTN	90	105	90	105	-	0.09	0.11	-	-	-	-	-

- - before 01.11.02 13 hours per month (local connection limit) were included in the subscription fee.

Table 3. Implementation of per-minute billing system in 2002

Subscribers class		Subscribers charged on per-minute basis		Income per 2002 from per-minute charged subscribers, RUR in thous.	
		before 01.11.02	since 01.11.02	subscr. fee	loc. calls
<i>Natural persons</i>	GTS	0	0	0	0
	STS	0	0	0	0
<i>budget-funded organizations</i>	GTS	0	10 047	558	674.2
	STS	0	0	0	
<i>Self-funding enterprises</i>	GTS	16 289	15 624	16746.8	5687.5
	STS	53	0	49.5	0.7

## Additional information:

1. In 2002 revenues received from services provided to the privileged subscribers amounted to RUR108.304 million (including compensation amount of RUR 45.355 million). In 2002 the lost revenues from the benefits provision amounted to RUR41.7 million (reference: as of January 01, 2003 the budget backlog in the benefits compensation amounted to RUR130.1 million).
2. In the Tula region per-minute billing was introduced in 1993 for businesses connected to electronic exchanges. Effective November 1, 2002 the Russian Antimonopoly Ministry approved local telephone call rates for per-minute billing (the Russian Antimonopoly Ministry order # 729 dated October 18, 2002) and the decision was made to gradually introduce per-minute billing for local telephone calls in the territory of the Tula region, namely:
  - in Schekino town for all organizations effective November 01, 2002, for the natural persons – effective February 01, 2003;
  - in Aleksin town for all organizations effective December 01, 2002, for the natural persons – effective March –1, 2003;
  - in Tula city for all organizations effective December 01, 2002, for the natural persons – effective June 01, 2003;
  - in Efremov and Belev towns for all organizations effective December 01, 2002.

The information of the subscribers' number transferred to the time-charged connections payment system and the income received in 2002 is given in Table 3 (Annex # 1).

**YarTelecom – a branch of JSC CenterTelecom**

No	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR, in 4 quarter 2001.	Unit costs at the end of the year, RUR, in 4 quarter 2002.	Annual service revenues, RUR in thous.	Annual service costs, RUR in thous.
1	Provision of access to an urban telephone network (GTS) (one-time installation fee) - basic telephone set			4004.0	4505.0	86098.0	79268.9
	natural persons	8500	8500			71606.6	
	budget funded organizations	5000	5000			2411.3	
	non-budget funded organizations	5000	5000			12080.1	
2	Provision of access to a rural telephone network (STS) - basic telephone set			4298.0	4960.0	4846.1	12780.5
	natural persons	3000	5000			4153.8	
	budget funded organizations	3000	5000			235.4	
	non-budget funded organizations	3000	5000			456.9	
3	Local phone service under monthly rental arrangements for GTS			67.5	86.7	22894.3	224738.5
	natural persons	70.00	85.00			15703.6	190431.3

No	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Annual service revenues, RUR in thous.	Annual service costs, RUR in thous.
	budget funded organizations	115.00	130.00			2925.0	10439.3
	non-budget funded organizations	115.00	130.00			4265.7	23867.9
4.1	Local telephone service under per-minute billing for GTS (the constant part)					150365.6	
	natural persons	56.00	65.50			118816.5	
	budget funded organizations	77.20	78.00			10197.0	
	non-budget funded organizations	77.20	78.00			21352.1	
4.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):					82678.4	
	natural persons	0.08	0.10			56915.1	
	budget funded organizations	0.07	0.10			7170.8	
	non-budget funded organizations	0.07	0.10			18592.5	

No	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Annual service revenues, RUR in thous.	Annual service costs, RUR in thous.
5	Local telephone service under monthly rental arrangements for rural networks (STS):			196.3	253.7	26647.8	90953.6
	natural persons	70.00	85.00			19649.4	76318.8
	budget funded organizations	115.00	130.00			2882.7	5238.3
	non-budget funded organizations	115.00	130.00			4115.7	9396.5
6.1	Local telephone service with per-minute billing for rural networks (STS) (constant part):					1664.4	
	natural persons	56.00	65.00			1398.3	
	budget funded organizations	77.20	78.00			124.0	
	non-budget funded organizations	77.20	78.00			142.1	
6.2	Local telephone service with per-minute billing (variable component) for rural networks (STS):					779.8	

No	Service	Tariff at the beginning of the year*, RUR	Tariff at the end of the year*, RUR	Unit costs at the beginning of the year, RUR	Unit costs at the end of the year, RUR	Annual service revenues, RUR in thous.	Annual service costs, RUR in thous.
	natural persons	0.08	0.10			552.8	
	budget funded organizations	0.07	0.10			129.1	
	non-budget funded organizations	0.07	0.10			97.9	
7	Long distance call	8.19	8.74	5.8	6.1	361081.2	249558.3
8	Inland telegram	0.70	0.80	69.8	98.2	4708.1	27084.1

\*- For service 7 an average charge is specified

*EXPLANATORY NOTE*

During 2002, in the result of cooperation with the Russian Ministry for Antimonopoly Policy and Support of Entrepreneurship, the tariffs for the local telephone services were updated twice: on 01.01.2002 and on 01.09.2002.

<b>Subscriber monthly rental</b>	<b>Since 01.01 2002</b>	<b>Since 01.09 2002.</b>
<b>Subscription fee per month</b>		
Businesses	115	130
Budgetary organizations	115	130
Natural persons, urban communities	70	85
rural communities	70	85
<b>Per-minute billing</b>		
Businesses	77.2	78
Budgetary organizations	77.2	78
Natural persons, urban communities	56	65.5
rural communities	56	65.5
<b>Local calls (connection) cost at the time-based payment plan.</b>		
<b>Businesses</b>		
Full or partial minute of connection (telephone call)	0.07	0.10
The following time <b>coefficients</b> are applied to the connection cost per minute indicated above:		
- for connections (calls) from 23.00 till 09.00 on week days, on Saturdays, Sundays and public holidays round the clock – <b>0.6.</b>		
- for connections (calls) from 09.00 till 17.00 , except for Saturdays, Sundays and public holidays – <b>1,2.</b>		
<b>Natural persons, city telephone network (CTS) and rural telephone network (VTS)</b>		
Full or partial minute of connection (telephone call)	0.08	0.10
The following time <b>coefficients</b> are applied to the connection cost per minute indicated above:		
- for connections (calls) from 23.00 till 09.00 on week days, on Saturdays, Sundays and public holidays round the clock – <b>0.6.</b>		
- for connections (calls) from 09.00 till 17.00 , except for Saturdays, Sundays and public holidays – <b>1,2.</b>		
<b>Providing access to the telephone network:</b>		
Businesses, urban communities	5000	5000
rural communities	3000	5000
Natural persons, urban communities	2000-8500	2000-8500
rural communities	800-3000	800-5000

Since 01.01.2003, the tariffs for the long-distance trunk telephone calls for budgetary organizations have changed by 20%.

Since 15.06.2002, the tariffs for natural persons and businesses on the long-distance telephony were increased by 20 % during the off-peak hours: from 18.00 till 00.00, from 00.00 till 08.00, and also on week-ends and public holidays round the clock.

Since 10.01.2002, the tariffs on telegraph services have changed. The price for in-country telegrams was established at RUR0.70 per word, from 10.12.2002 the price was hiked up to RUR0.80.

*The number of people enjoying payment benefits in paying for the local telephone services, according to the current legislation, reached 100207 as of 01.01.2003. The monetary cost of the benefits for the local telephone services made up RUR51079.9 thousand in 2002, of which RUR30364.5 thousand were compensated., and RUR20715.4 thousand were not.*

Per-minute billing for local telephone services was introduced in Yaroslavl Region in 1995. During eight years we regularly analyzed the results of per minute billing for the local telephone calls, conducted sociological polls and awareness campaigns among the public with the purpose to avoid conflict situations. From the very beginning, no time limits for telephone calls have been set.

*As of 01.04.2003, 253450 subscribers were transferred on per minute billing for the local phone calls that makes 80.5% of the total number of subscribers. Such payment system was implemented in the cities of Yaroslavl, Rybinsk, Tutaev, Rostov, and other towns and local centers of the Yaroslavl Region , and also in 14 rural communities.*

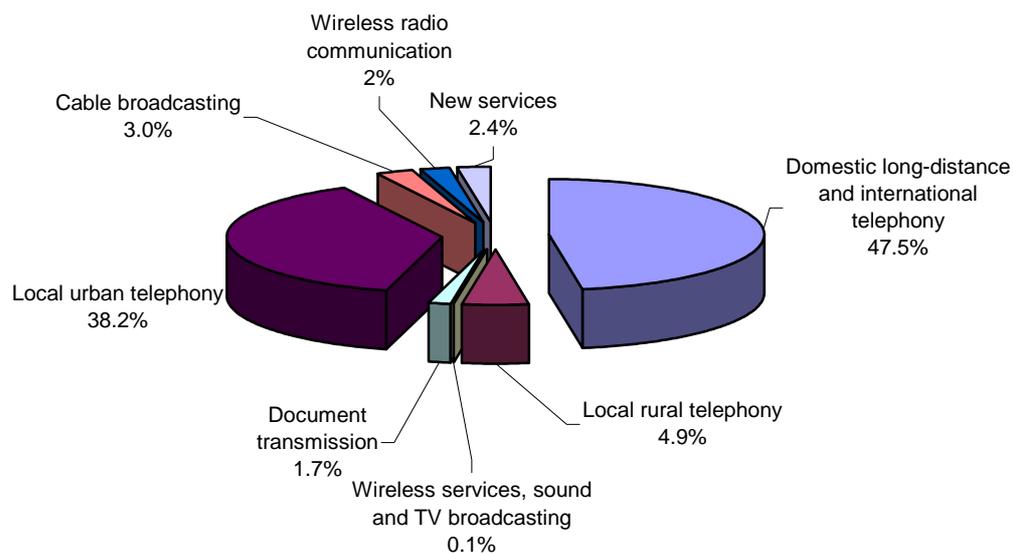
*Revenues from the subscription fee received in 2002 in the form of time-based payments amounted to RUR235488.2 thousand, or 82.6 % of the total subscription fees received during the year.*

### 5.4. Main Economic Indicators of the Company

Table 4

INDICATOR	Unit	2001	2002.	Growth rate over the year 2002/2001( %)
Revenues (excluding VAT)	RUR in thous.	12799301	16389267	128
Tariff income	RUR in thous.	12199645	15840176	129.8
Expenses	RUR in thous.	9994779	12131919	121.4
Balance sheet profit	RUR in thous.	1746391	1641507	94
Profit margin	%	17.5	13.5	-4 points
Costs	RUR in thous.	780	740	95

### 5.5. Breakdown by service type of JSC CenterTelecom revenues in 2002

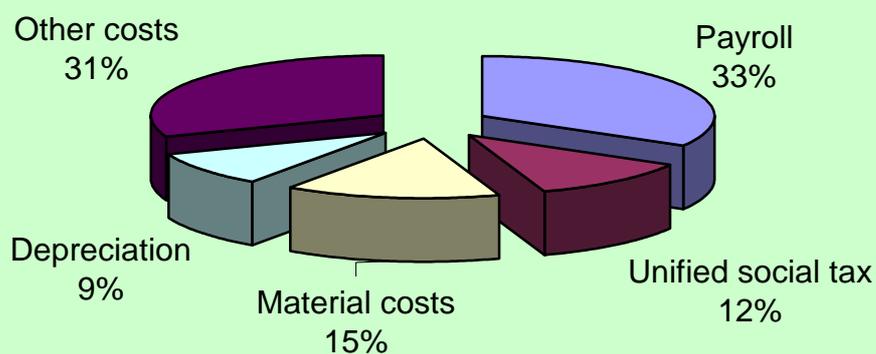


### Breakdown of JSC CenterTelecom revenues in 2002 by customer type

Communication types	Share of a customer category (%) in the gross revenues		
	Natural persons	Budgetary Organizations	Non- budgetary organizations
Domestic long-distance and international telephony	50.9	6.5	42.6
Document transmission	43.4	12.4	44.2
Local urban telephony	69.3	8.7	22
Local rural telephony	76.2	9.6	14.2

Wireless communications, sound and TV broadcasting	72.8	5.6	21.6
Cable broadcasting	81.3	10.3	8.4
Wireless communications	71.4	2.3	26.3
New services	44.1	6.5	49.4

### 5.6. Breakdown of JSC CenterTelecom expenses in 2002



### 5.7. Key efficiency ratios of the Company

Table 5

	Indicator	Unit	2001	2002	Growth rate (%)
1.	Revenue per line	RUR	2322	2863	123.3
2.	<b>Profit per line</b>	RUR	332	297	89.5
3.	<b>Revenue per employee</b>	RUR	162753	219733	135
4.	<b>Profit per employee</b>	RUR	23298	22771	98
5.	<b>Number of lines per employee</b>	line	70	77	110

### 5.8. Information on Net Assets of the Company

Table 6

	As of 01.01.2003
1. Net assets total (RUR in thous.)	14 397 946
2. Charter (legal) capital (RUR in thous.)	631 200

3. Reserves (RUR in thous.)	27 838
4. Net assets / charter (legal) capital ratio (line 1/ line 2) (%)	22,81
5. Net assets / the sum of charter (legal) capital and reserves (line 1/ (line.2+ line.3)) (%)	21,85

**Over the reporting period net assets of the Company increased by RUR784,850 thousand, or by 5.45 %.**

## ***VI. PERSONNEL MANAGEMENT***

### **6.1. Labor and Wages**

Payments to employees in 2002 amounted RUR4041.1 million. Payroll growth rates as compared to the corresponding period of the previous year were 122.6 % (on the sales growth rates of 127.5 %).

The average number of employees in 2002 was 72,088 people, or by 2,870 less than the corresponding figure last year (3.8 %). The measures taken for streamlining of the Company organization structure, improvement of work management, optimization of functional interactions between structural units have allowed us to downsize the staff: in operational activity - 468 persons, in providing and advertising of telecommunication services - 571 persons, in logistic services - 967 persons, in management - 56 persons.

A stable tendency for the reduction of employee number is observed throughout all Company's divisions.

The year 2000 - 76011 persons, year 2001 - 74956 persons

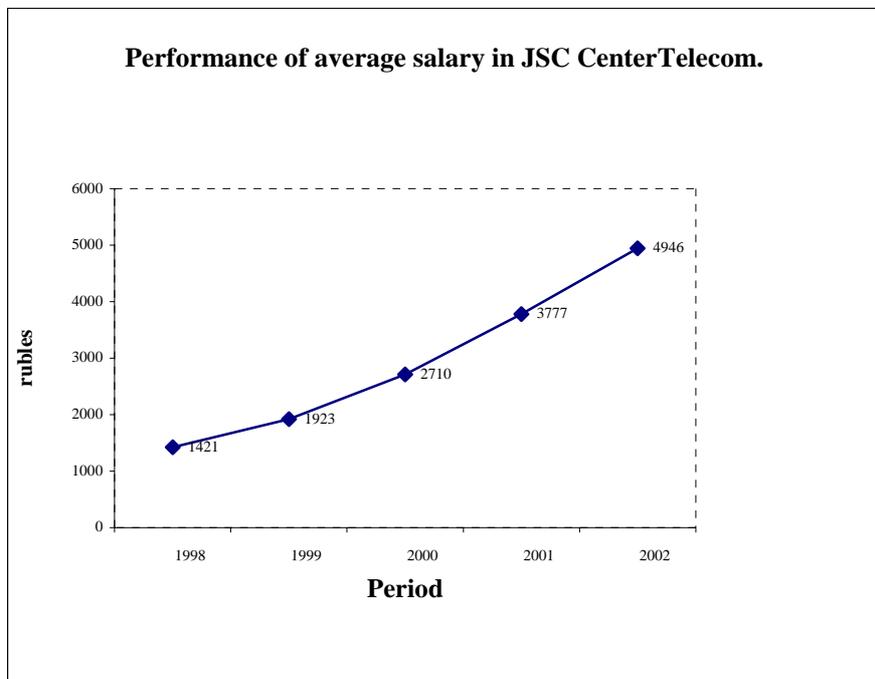
The proceeds per 1 employee in year 2002 amounted 219.7 RUR in thous. and increased compared to the previous year by 30.5%. The increase of the parameter was achieved due to the growth of proceeds (27.5 %) and the reduction of the employee number (3.8 %).

The number of lines per 1 employee comprised 74 lines average for the Company that exceeded the analogous parameter of the previous year by 4 lines (increase by 6.4 %).

The average employee wage in year 2002 was RUR4,892 rub that exceeded the previous year figures by 31.2 %. The growth in the average payment is provided due to the growth of wage payment costs (122.6 %) and also due to the reduction of the average number of employees by 3.8 %.

The average salary is presented on Diagram 1.

Diagram 1



The share of the payroll in total revenues decreased from 25.7 % in 2001 to 24.8 % in 2002.

Profit per 1 employee in 2002 was RUR4.04 per 1 ruble of salary, and increased from RUR3.88 in 2001; the increase being by 4.1 %.

## 6.2 Improvement of Management Structure

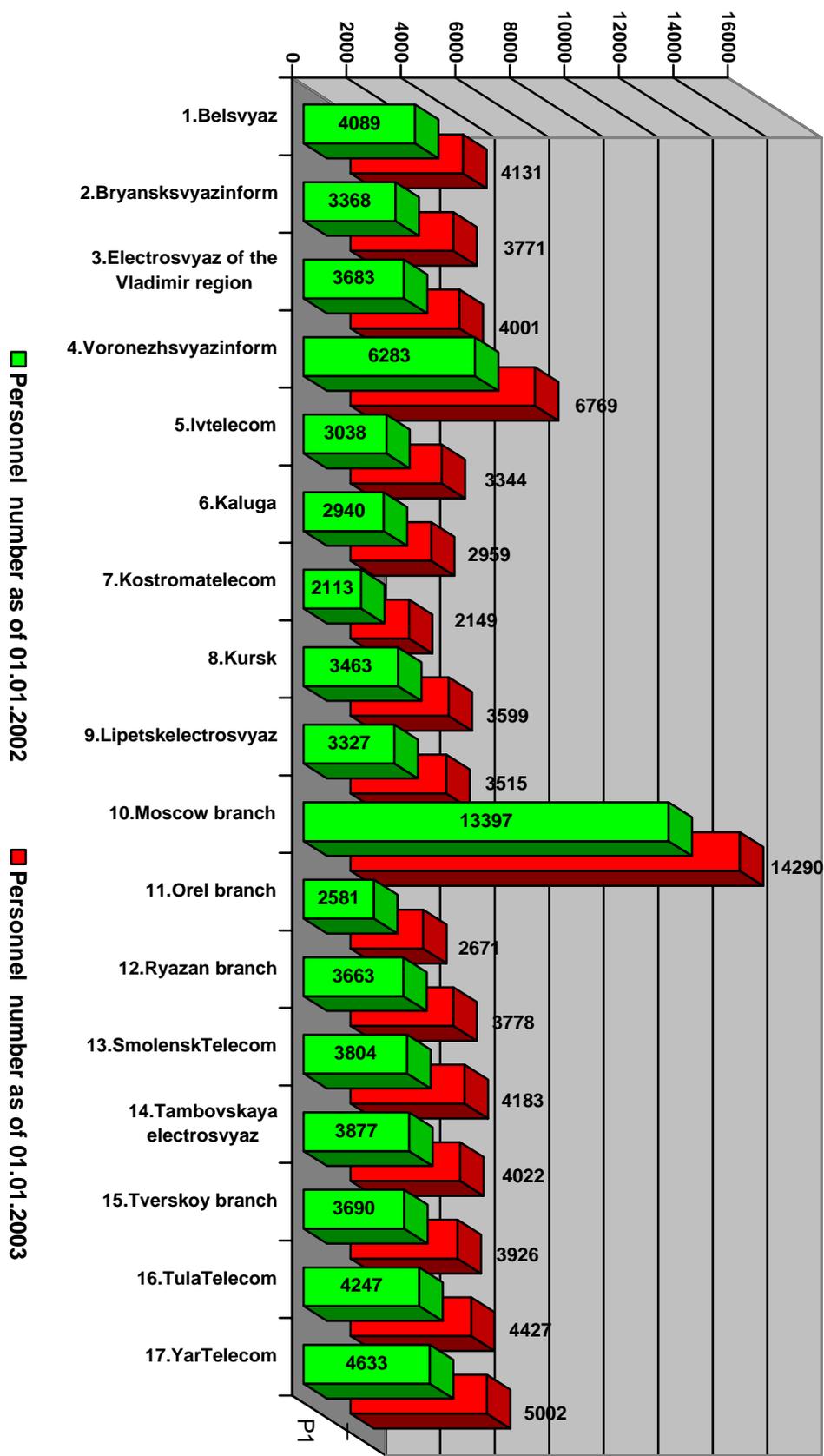
According to the concept of consistent improvement of the Company management structure, the Company Board of Directors decided on April 10, 2002 to liquidate all subsidiaries of the company in Moscow Region and to form on their base the uniform Moscow branch of the Company. Former branches – telecommunication centers - Balashichinsky, Dmitrovsky, Kolomna, Krasnogorsky, Luberetsky, Mytischinsky, Naro-

Fominsky, Odintsovsky, Orekhovo- Zuevsky, Podolsk, Serpukhov, Khimkinsky, Shchelkovo - have become structural divisions providing the volume of sales.

Also the decision was made to create 16 regional branches of the Company. The required organizing work was carried out to prepare the fast organization of the branches and assigning to them property, assets, staff and serviced territories of the former annexed companies in connection with their exclusion from the Uniform State Register of Legal Persons.

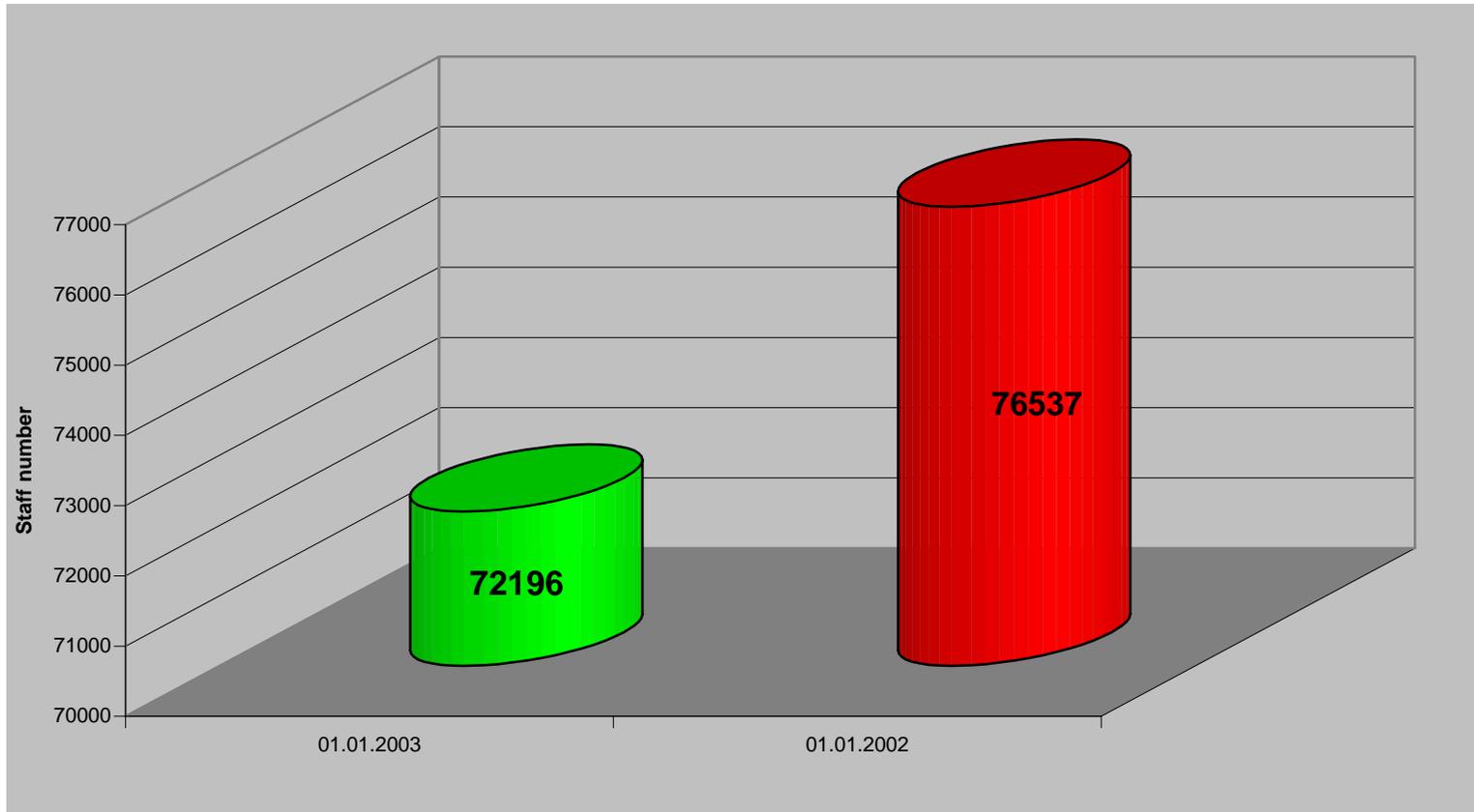
As a result of structural transformations, the former branches of the affiliated companies (above 300) have been transformed to structural divisions of newly created regional branches of JSC CenterTelecom .

The work continues to be done on further improvement and integration of structural divisions of the branches, along with the reduction of staff employees number.



Changes in the number of employees of JSC CenterTelecom

**Total labor force change (JSC CenterTelecom)**



### 6.3 Personnel Management.

In 2002, 17 regional telecommunication operators of the Central Federal district were merged into a single super-regional telecommunication company JSC CenterTelecom; and a new management structure was developed.

In connection with the reorganization of all branches of the Company, the optimization of the organization structure was conducted. As a result of the integration, the number of the territorial structural divisions was considerably reduced, that allowed to operate with telecommunication networks more efficiently, to generate a uniform corporate system of the finance management.

As a result of the measures taken the total number of employees in the Central region decreased during the year by 4,341 people, or by 5.7 % as compared to the year beginning.

During the accounting period, total 15073 persons were dismissed from the branches of JSC CenterTelecom (10732 persons were taken on work.), the dismissed staff structure: managers and experts - 19,4 %; employees - 3,2 %; workers - 77,4 %. 2062 persons were dismissed due to the staff reduction; the work on the staff number optimization will be continued in year 2003.

Total number of employees of JSC CenterTelecom as of 01.01.2003 was 72,196, with 36,786 women, or 51 %. The staff structure of the Company: managers – 4,447 (6.2 %), specialists – 21,890 (30,3 %), clerks - 674 (0.9 %), workers – 45,185 (62.6 %).

Half of JSC CenterTelecom's employees have higher or professional secondary college education (51.8 %), 55 persons have a scientific degree or rank, the average employee age is 41.5 years.

The qualitative structure of management at all levels allows to efficiently manage the Company divisions and the entire Company as a whole. Of 4,447 managers, 32 persons have a scientific degree or rank, 2,825 (63.5 %) - higher education, 1,308 persons - vocational technical training (college), and 1,093 persons continue their training in higher educational institutions. 24.6 % are young managers aged under 40.

In all branches of the Company, the consistent work is conducted on forming and preparation of a reliable staff reserve. Taking into account their professional, business and personal qualities, 3947 persons were listed as the replacement reserve for the managing positions in the accounting year, of them 2908 (73,7 %) with higher education, 1915 persons - perspective employees aged under 40. From those listed in the replacement reserve, 459 persons in 2002 were appointed on managing positions.

2662 candidates of the personnel reserve participated in the different forms of training organized by the Company. 7 person (from the branches: *Voronezhsvyazinform*, *Ivtelecom*, *Lipetskelektrosvyaz*, *Moscow branch*) were the participants of the presidential training program Preparation of management staff for the organizations of national economy of Russia. The branches *Tambovskaya elektrosvyaz*, *Voronezhsvyazinform*, *Lipetskelektrosvyaz*, and the Moscow branch concluded contracts on the preparation of 6 managers of a highest level with the

Higher School of International Business and the Grenoble Higher School of Economics, under Master of Business Administration (MBA) program.

The reserve-listed candidates for top-management positions are trained in the Academy of National Economy under the government of Russia, in the Academy of Civil Service under the President of Russia, in the North-West Academy of Civil Service, on the programs of second higher education.

33 candidates from the management staff reserve had their training abroad.

One of the sources for the company renewing and its supplying by qualified specialists, is the cooperation with industry-related educational institutions. In the accounting year, 36 graduates of higher educational institutions specializing in telecommunication and 51 college graduates were taken on work into the Company branches. Also, 104 persons continue their training under the program of target preparation of specialists.

Contracts concluded with educational institutions allow us to develop such forms of staff training as the preparation of specialists without the interruption of work: in the form of evening and correspondence education: 2220 employees are trained in higher institutions and 675 - in secondary professional educational institutions. 211 specialists of JSC CenterTelecom are receiving their second higher education.

In 2002, total 2780 specialists were taken on work into all branches, of them 434 persons had graduated from the educational institutions related to the telecommunication industry. The supply of engineering-technical positions by certified specialists comprised: engineers - 66,1 %, technicians - 68,8 % (together with specialists with higher education - 84,4 %).

All branches of the Company pay great attention to the qualification improvement of employees. The training management of training is conducted on a systematic base: the planning of staff preparation needs, working out and realization of training programs, the analysis and estimation of training results.

The in-company preparation of staff is takes place, mainly, in 6 regional educational centers belonging to the Company branches, where 5546 persons have improved their qualification in year 2002. In the *Kaluga branch, TulaTelecom, YarTelecom*, the remote staff training is organized.

The contracts for the preparation and advanced training of managers and specialists are concluded with the Academy of National Economy under the Government of the Russian Federation, IPK MTUCI, the center of scientific and technical information *Informsvyaz*, JSC *Business - Seminars*, the Russian Academy of Civil Service, the International Academy of Business, the Educational Centers *Assistance, Resonance*, etc.

Besides, 126 persons had their training in various foreign educational centers.

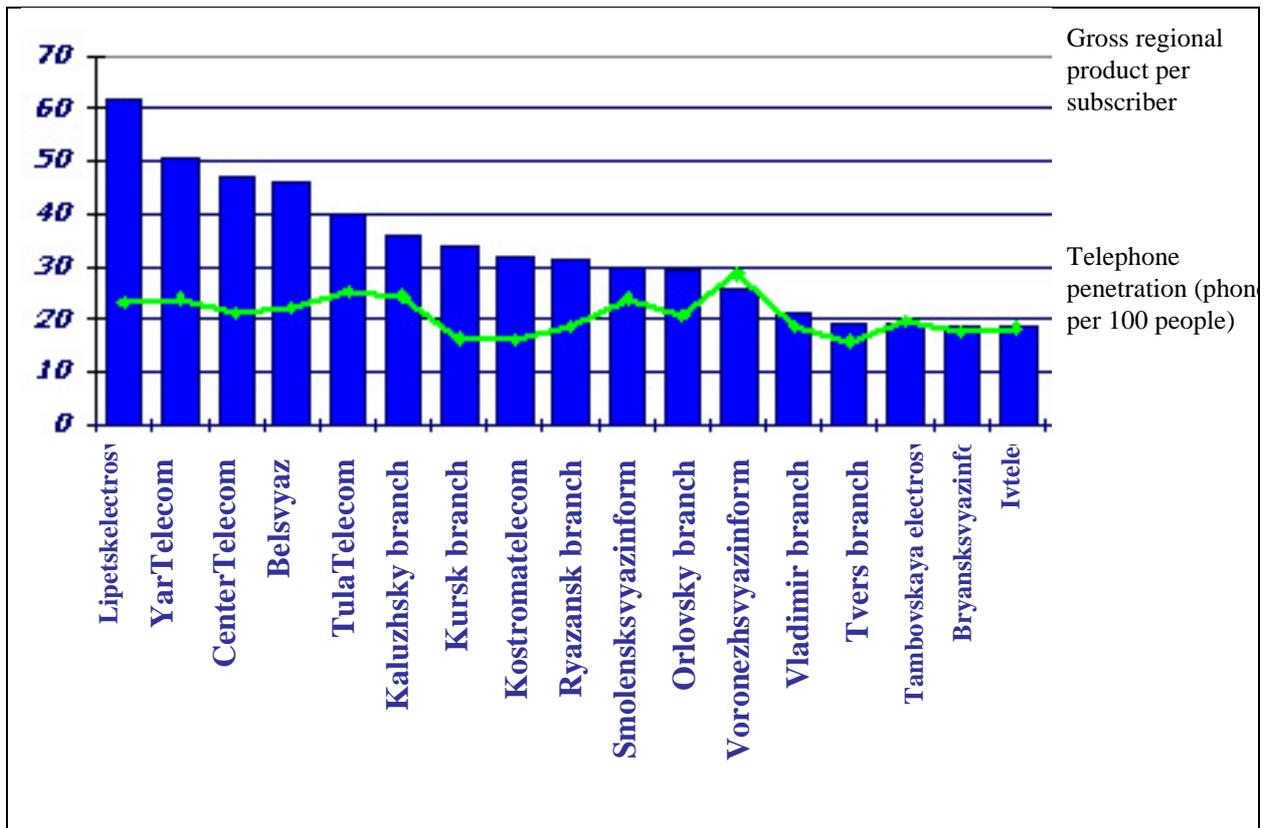
Total 26711 persons participated in all forms of training during the accounting year, or 37 % from the general number of employees. Spending for the staff training amounted to RUR44028.5 thousands.

The staff turnover in JSC CenterTelecom was 10.6 %, including managers and specialists – 6.5 %, workers – 13.5 %.

The tasks of the human resource development policies for 2003 are: the development of the personnel strategy within the frameworks of super-regional company, creating conditions for the realization of measures aimed at increasing the personnel potential and gaining the Company's competitive edge.

## ***VII. THE COMPANY DEVELOPMENT PROSPECTS***

The market situation analysis reveals bright prospects of business development of the integrated company. The demand for traditional and new services practically in all regions surpasses the current rates of putting into service production capacities. In the majority of central regions of Russia, phone network coverage still lags behind the gross regional product per capita that testifies to good opportunities and essential growth of sales in business area of the company.



In the sector of traditional telephony, the share of JSC CenterTelecom is higher than 85% and has low rates of decrease. Implementation of the Company's investment policies, considering the tariff policy declared by the Government of the Russian Federation, will allow us to retain the positions in the sector of traditional services and to strengthen our positions in the sector of new services.

As the greatest economic efficiency in the nearest future will be achieved through the provision of additional services, the main strategic task is the construction of the multiservice network.

Multiservice network (MN) MRK JSC CenterTelecom should be a component of the national multiservice network of Russia, which forms the uniform national information-telecommunication infrastructure supporting all kinds of traffic (data, voice, video). For the creation of MN, fiber-optic lines are used, as the transmission media providing the best quality of data transfer. Other transmission medias - copper, digital microwave links, digital satellite channels - can be used as a temporary or forced provisional solution. The basic principle of a multiservice network is the mutual recognition of the functions of data transfer and switching, the functions of call management and the functions of services management.

Considering that currently the main volume of tariff income is provided by long-distance and international communication and the tendency for the traffic growth is retained, one of the priority tasks is still the construction of new and the digitizing of existing communication networks, with the application of state-of-the-art fiber-optic, ATM technologies.

The further evolution of telecommunication networks, both on local and all-Russia levels, is directed towards the digitizing of communication networks at all levels, by step-by-step construction of digital networks on the basis of digital switching stations, communication centers and digital channels. Local digital networks will be formed by overlaying new networks on existing networks. Various variants of xDSL will be one of main techniques of user's access, depending on customer requirements.

### **VIII. USAGE OF NON-DISTRIBUTED PROFIT IN THE COMPANY**

#### 8.1. Main areas of usage of non-distributed profit in 2002.

Table 7

	Indicator	Unit.	2002	
			Authorized by general meeting of shareholders	Report
1	2	3	4	5
	Non-distributed profit – total on 01.01.02	RUR in thous.	<b>1170841</b>	<b>1 170 841</b>
<b>Main directions of profit distribution:</b>				
<b>1</b>	<b>For compensation:</b>		<b>119324</b>	<b>119324</b>
A)	Of previous years losses	RUR in thous.	<b>119324</b>	<b>119324</b>
	including: - costs not covered by financing sources	RUR in thous.	<b>27918</b>	<b>27918</b>
B)	Of the accounting year losses	RUR in thous.		
<b>2</b>	<b>For reserves</b>	RUR in thous.	<b>57094</b>	
	% of total sum allocated for distribution	%	4,9	
<b>3</b>	<b>For the formation of employee stock ownership plan for the Company employees ( if provided for by foundation documents)</b>	RUR in thous.		

	% of total sum allocated for distribution	%		
<b>4</b>	<b>For payment of dividends</b>	RUR in thous.	<b>218425</b>	<b>218425</b>
	% of the total amount allocated for distribution	%	18,7	18,7
<b>5</b>	<b>Resources used by the Company as financial covering of the production development ( including share holding) – total</b>	RUR in thous.	<b>720625</b>	<b>720625</b>
	% of the total amount allocated for distribution	%	<b>61.5</b>	<b>61.5</b>
	including: - share holding	RUR in thous.		
<b>6</b>	<b>Non-distributed profit remains</b>	RUR in thous.	<b>55373</b>	<b>112467</b>

## 8.2. Key items of non-distributed profit distribution planned for year 2003

Table 8

	Indicator	Units	2003
			Plan
1	2	3	5
1.	Free balance of non-distributed profit of previous years as of 01.01.03, allocated for distribution*	RUR in thous.	
<b>Areas of usage:</b>			
a)	For covering losses	RUR in thous.	
b)	For increase of the legal capital, in the form of non-distributed profit of previous years	RUR in thous.	
2.	Non-distributed profit of the reporting year	RUR in thous.	<b>1084300</b>
<b>Main usage areas of non-distributed profit of the reporting year:</b>			
a)	For covering losses of the previous years		
b)	For the reserve fund formation , In % to net profit	RUR in thous. %	3722 0.3
c)	For the formation of special stock fund for the Company employees ( in case such fund is conditioned by the constituent documents)	RUR in thous.  %	
d)	For paying of dividends  in % to net profit	  %	259843  24.0
e)	For increase of equity, in the form of non-distributed profit of the accounting year, in % to net profit	RUR in thous.  %	820735  75.7

NOTE:

\*\* - the value of indicator 1 is established by the Company itself, based on initial data of analytical calculation.

### ***IX. INFORMATION ON MAJOR DEALS CONCLUDED BY THE COMPANY***

Minutes # 2 of June 19, 2002

The decision is made by: the Board of directors of JSC CenterTelecom .

Type of deal: **interest in the deal (A. V. Lopatin – director of the non-commercial partnership Research Center for Telecommunication Evolution Problems R. A. Amaryan - General Director of JSC CenterTelecom )**

Voting results: for - 6, against - 0, abstained - 0.

**Subject of the agreement: target transfer of money resources without return.**

**The agreement parties: Non-commercial partnership Research Center for Evolution Problems of Telecommunication.**

The value of agreement: RUR39000000 (thirty nine million).

Effective date of the agreement: since March 20, 2002

Effective term of the agreement: before complete fulfilling of the obligations.

Other essential terms and conditions of the agreement: no.

Minutes #16 of December 10, 2002

The decision is made by: the Board of directors of JSC CenterTelecom .

Type of the deal: interest (V. N. Yashin - the chairman of the board of directors of JSC *NTS*, R. A. Amaryan – a member of the board of directors of JSC *NTS*)

Voting results: for - 5, against - 1, refrained - 0.

**Subject of the agreement: rendering of services.**

**The agreement parties: JSC *NTS*.**

Agreement amount: RUR1.08 per unit.

Effective date of the agreement: from the moment of signing

Effective term of the agreement: 1 (one) year.

Other essential terms and conditions of the agreement: no.

Minutes #16 of December 10, 2002

The decision is made by: the Board of Directors of JSC CenterTelecom .

Type of the deal: interest in the deal (V. N. Yashin - the chairman of the board of directors of JSC *NTS*, R. A. Amaryan – a member of the board of directors of JSC *NTS*)

Voting results: for - 5, against - 1, abstained - 0.

**Subject of the agreement: sale - purchase.**

**The agreement parties: JSC *NTS*.**

Agreement amount: USD12,000

Effective term of the contract: from the moment of signing and until complete fulfillment of all obligations.

Other essential terms and conditions of the agreement: no.

Minutes # 9 of September 18, 2002

The decision is made by: the Board of Directors of JSC CenterTelecom .

Type of the deal: as the nominee for the company auditor had been recommended by the Board of directors, the contract for the auditor services was considered by the Board of directors of the Company.

Voting results: for - 6, against - 0, abstained - 0.

**Subject of the agreement: audit of financial and economic activity of the Company.**

**The agreement parties: JSC Ernst&Young Vneshaudit.**

Agreement amount: USD115,000 without the VAT

Effective term of the agreement: from the moment of signing and until complete fulfillment of the obligations.

Other essential terms and conditions of the agreement: no.

**X. INFORMATION ON PARTICIPATION  
OF THE COMPANY IN OTHER ORGANISATIONS PROVIDING  
TELECOMMUNICATION SERVICES (WITH THE COMPANY'S EQUITY  
STAKE OF AT LEAST 10%)**

Table 9

№	Name of the organization	Type of activity	CenterTelecom equity stake		Investments, made in the process of activity (RUR thousand)	Main indicators of activity		
			Sum (RUR thousand)	%		Number of subscribers or lines	Earnings (RUR thousand)	Net profit (RUR thousand)
1	OOO <i>Teleport Ivanovo</i>	- data transfer network and Internet services; - NMT-450 cellular communication services (under the contract with <i>Ivtelecom</i> ); - cellular and paging communication services; - sales of communication facilities.	151,250	100	-	1. Data network subscribers - 984 customers. 2. NMT-450 cellular communication subscribers - 617 persons. 3. Paging communication subscribers - 875 persons.	5,633	109
2	OOO <i>MobilCom</i>	Trunking communication services to natural persons and legal entities in the territory of Vladimir region.	2,250,000	100	-	160 subscribers of MPT-1327; 43 subscribers of SN-II	3,018	-
3	OOO <i>VladPage</i>	Personal radio-call services (PRCS) in the city of Vladimir and region in <i>POCSAG</i> standard with the use of 157,925 Hz frequency.	41,250	75	-	120 subscribers with per month payment schedule; 700 subscribers with per message payment schedule	748	-
4	OOO <i>Production-Innovation Enterprise Svyaz-Service-Irga</i>	Repair and maintenance of communication equipment; innovation activity, production, repair and technical maintenance of telephone and radio communication systems and facilities.	0,700	70	-	-	2,455	93
5	ZAO <i>Svyazproject</i>	Design works in the field of communication.	4,139	53	under liquidation			

6	OOO <i>Vladimirsky taxophone</i>	Creation and organization of a network of multipurpose card pay phones for local, long-distance and international calls for natural persons and service calling card (SCK) service in the city of Vladimir and Vladimir region.	92,500	51	-	1,084 pay phones MTC; 33 pay phones STS; 5 multipurpose pay phones; 4 international pay phones	14,557	33
7	ZAO <i>Moteko</i>	Telecommunication and Internet services.	51,000	51	-	237 subscribers via dedicated lines; 6,950 Internet subscribers	32,680	-
8	ZAO <i>Telecom of Ryazan region</i>	Establishment of a modern telecommunication network and system of information servicing, integration of telecommunication infrastructure and region management with international system of CIS and foreign countries.	22,905	51	-	7,424 subscribers; 5,640 channels	19,774	1,573
9	ZAO <i>TeleRoss-Voronezh</i>	Telecommunication and information services, investment activity on creation of telecommunication networks.	585,361	50	-	950 lines	15,132	1,009
10	ZAO <i>Vladimir-Teleservice</i>	Providing telematic and data transfer services in the territory of Vladimir region.	11,000	50	-	900	10,592	1,491
11	ZAO <i>Cellular Communication of Black-soilya</i>	Provides cellular communication services, including in NMT-450 standard.	28,960	45	-	12,448 subscribers	79,260	-
12	ZAO <i>Kaluga Cellular Communication (ZAO KCC)</i>	Providing cellular radiotelephone communication services within the 450 MHz frequency range.	8,400	42	-		18,905	-28,070

13	ZAO <i>Smolensk Cellular Communication</i>	Cellular communication services in GSM standard.	2,349,200	40	-	2,887	9,231	-
14	ZAO <i>Tver Cellular Communication</i>	Cellular communication, NMT-450 MHz.	12,000	40	-	3,800 subscribers	28,449	1,418
15	ZAO <i>Ryazan Cellular Communication</i>	Providing cellular radiotelephone communication services within the 450 MHz frequency range.	12,000	40	-	1,745 subscribers	16,619	-
16	ZAO <i>Bryansk Cellular Networks</i>	Providing cellular communication services.	275,000	34	-	1,372 subscribers	22,369	-
17	ZAO <i>Belgorod Cellular Communication</i>	Cellular communication services in AMPS-800 standard.	1,749,000	30	-	2,908 subscribers	8,262	-16,572
18	ZAO <i>Radio paging Incorporated</i>	Paging communication.	147,233	30	Under liquidation			
19	OOO <i>Rating</i>	USW, VHF, FM on-air and wired radio broadcasting, organization of a radio broadcasting office; development and run of advertisements on the radio.	36,316	29	-		1,074	-
20	OOO <i>Tver Telecom</i>	Traffic passage. Service calling cards.	50,440	26	-	32 customers	83,532	-2,624
21	JSC <i>Telecommunication Company Rinfotels</i>	Data transfer, telematic services, Internet access.	4,160	26	-	255 subscribers	8,156	1,279
22	OOO <i>Trunksvyaz</i>	Organization of production and repair of radio communication facilities, training of qualified staff for dealing with production and operation of communication facilities, other services.	25,000	25	-	44 subscribers	266	7
23	OOO <i>RadioLine</i>	Providing services on creation and operation of communication networks, providing paging communication services.	0,650	13	-	250 subscribers	480	-

24	ZAO <i>OskolTelecom</i>	Cable television services.	1,886	12	-	12,068 subscribers 20,000 lines	10,659.9	2,327.3
25	ZAO <i>STC COM-SET</i>	Conduct of research-and-development and experimental-and-design works for development of modern telecommunication systems.	35,470	11	-	N/A	43,643	7,886

1. Limited Liability Company *VladPage*.

The company provides personal radio paging services in the city of Vladimir and region in the POCSAG standard with the use of 157,925 Hz frequency on the basis of equipment of MOTOROLA, PO NUCLON of *PageLink* (Moscow).

2. Joint-Stock Company *Bee Line* – Vladimir.

The company carries out operator activity in the market of services based on systems of cellular radiotelephone communication of DAMPS and GSM standards in the territory of Vladimir region. JSC *Vympel-Communication* is the owner of a license for operator's activity.

3. Limited Liability Company *MobilCom*.

The company carries out activity on providing trunking communication services to natural persons and legal entities in the territory of Vladimir region.

The company had carried out research-and-development and experimental works before 2000 on a feasibility study of application of dual-range duplex equipment for trunking within the public communication network; it started to provide telecommunication services in 2000.

4. Private Joint-Stock Company *Vladimir Teleservice*.

The company provides telematic and data transfer services in the territory of Vladimir region.

5. Limited Liability Company Vladimirsky taxophone.

The company carries out business activity on creation and organization of a network of multipurpose pay phones operated by phone cards for local, long-distance and international calls for natural persons and also provides service calling card (SCK) service in the city of Vladimir and Vladimir region.

6. Private Joint-Stock Company *TeleRoss-Voronezh*.

Provides telecommunication services. The *Voronezhsvyazinform* equity stake in the company as of January 1<sup>st</sup>, 2003, constituted 50%. There was no positive results of participation in 2002.

*Voronezhsvyazinform's* Director A.V. Haustovich was elected a member of the Board of Directors in 2002.

7. Private Joint-Stock Company *Sotovaya Svyaz Chernozemya* (Cellular Communications in the Black Soil area).

The company provides cellular communication services in the territory of the Central Black-soil region, including in the territory of Voronezh region in the NMT-450 standard. *Voronezhsvyazinform's* equity stake in the company as of January 1<sup>st</sup>, 2003, was 21%. There was no positive effect of participation in 2002.

*Voronezhsvyazinform's* Director A.V. Haustovich was elected a member of the Board of Directors in 2002.

8. Limited Liability Company *Trunksvyaz*.

The company provides mobile radio telephony communication services. *Voronezhsvyazinform* equity stake in the company as of January 1<sup>st</sup>, 2003, constituted 25%. There was no positive results of participation in 2002.

9. Limited Liability Company *TELEPORT IVANOVO (TPI)* was founded on the basis of a Russian-German Joint Venture that provided international satellite communication services. It is in the market of telecommunication services since 1993.

Main types of activity of LLC *Teleport Ivanovo*:

- ◆ providing data transfer and telematic services (Internet access, e-mail services, web-hosting);
- ◆ development of Internet resources / web design;
- ◆ development and implementation of local network projects; supply of equipment;
- ◆ providing maintenance services to subscribers of the cellular communications network of NMT-450i standard in the territory of Ivanovo region within the framework of a contract on commercial representation of *YarTelecom*;
- ◆ providing maintenance services to subscribers of the *Ivtelecom* paging communication;
- ◆ sales of telecommunication facilities.

10. Main events of TPI activity in 2002:

A phone card platform was put into operation in February 2002 and sales of Internet-cards were started.

A dealer network on sales of Internet cards was established in May and continues its expansion.

A new office was opened in downtown Ivanovo in July 2002.

Data transfer network was expanded in Ivanovo. It allowed expansion of a spectrum of provided services and improvement of their quality.

Equipment upgrade, which allowed reduction of cost of services, was carried out in December 2002.

A new service was introduced: connection via a dedicated line using SDSL technology over the subscriber's existing telephone line.

An agency contract was concluded with JSC *Vympelcom-Region* (trademark *Bee Line GSM*) and sales of subscriber's equipment of GSM standard and accessories were started.

11. Limited Liability Company *PIP Svyaz-Service-Irga* is a subsidiary of JSC CenterTelecom .

Charter (legal) capital is RUR 1,000; the Company's equity stake is 70%.

Limited Liability Company PIE *Svyaz-Service-Irga* carries out the following types of activity:

- repair and servicing of communication equipment and facilities;
- production, repair and technical maintenance of telephone and radio communication systems and facilities;
- providing paid services to organizations and natural persons;
- trade and procurement, intermediary and sales;
- repair of household appliances and equipment.

The Company has specialists for installation of switches, PABX, microwave links and their maintenance. The company has practical experience in installation of a whole complex of equipment of technological communication at RAO *Gazprom* subsidiaries. The Company ensures meeting technical requirements for installation of telephones at various sites in the city of Ryazan and Ryazan region.

The company's activity in 2002 was based on the Accounting Policies for 2002. All communication line installation works were carried out in the territory of the city of Ryazan.

There were no material facts of the Company's participation in this company during the reporting year.

12. Private Joint-Stock Company *Telecom* of the Ryazan region is a subsidiary of JSC CenterTelecom and ensures routing of long-distance and international traffic of the Company's subscribers.

Charter (legal) capital is RUR 450,000; the Company's equity stake is 50.9%.

Main types of activity of the company:

- deployment of a modern commercial telecommunication network and a system of rendering directory services;
- integration of a telecommunication and region management infrastructure with international information-switching systems of CIS and foreign countries (PSTN, data, computer network, e-mail, etc.);
- implementation of prospective information technologies, search for the most efficient capital investments into the telecommunication infrastructure;
- conduct of research-and-development, feasibility studies and surveying works;
- development and realization of software and technologies of the applied character;
- providing information, marketing, leasing, consultancy and intermediary services;
- wholesale, retail and commission trade, trade and procurement activity, etc.

There were no significant facts of the Company's participation in this company during the year under review.

13. Closed Joint-Stock Company *Ryazan Cellular Communication* is a subject company of JSC CenterTelecom . Charter (legal) capital is RUR 30,000; the Company's equity stake is 40%.

ZAO *Ryazan Cellular Communication* is a major operator of cellular communication of NMT standard of the 450 MHz range. This standard had been introduced in over 60 regions and over 500 towns and cities of Russian Federation.

Main types of activity of the company:

- deployment and commercial operation of systems of mobile and fixed radiotelephone communication;
- providing mobile and fixed radiotelephone communication services on the commercial basis;

- development and implementation of technological solutions in the field of management of processes of providing mobile and fixed radiotelephone communication services;
- retail, wholesale-retail and commission sales of equipment and accessories, intermediary activity;
- foreign economic activity in correspondence with the current legislation.

There were no significant facts of the Company's participation in this company during the reporting year.

14. Joint-Stock Company TC *Rinfotels* is a subject company of JSC CenterTelecom .

Charter (legal) capital is RUR 16,000; the Company's equity stake is 26%.

JSC TC *Rinfotels* continued stable operation in 2002, providing stable operation of the region data transfer network and telematic services.

Main type of activity of JSC TC *Rinfotels* is providing services of the data transfer network and telematic services in the territory of Ryazan region in accordance with the licenses of the Ministry of Telecommunication and Informatisation №18557 and №12610.

The *Rinfotels* data transfer network covers the whole territory of Ryazan region and has 26 access centers in its disposal. Among network subscribers are banks, industrial enterprises, educational establishments, bodies of Federal and local authorities and natural persons. A segment of the state automated *Elections* system functions on the basis of the network.

The following services are provided in the network:

- data transfer service;
- e-mail service;
- facsimile transmission service with intermediate accumulation and storage;
- radio access service (Internet radio access).

There were no significant facts of the Company's participation in this company during the reporting year.

15. Regarding ZAO *Radio paging Incorporated Company*: Due to termination of operations of ZAO *Radio paging Incorporated Company* arrangements for the company liquidation are being worked out with state registration bodies in accordance with the Board of Directors' decision (Minutes #2 dated 24.07.2001).

16. Regarding ZAO *Svyazproject*: Due to termination of business activity as of February 2001, firing of all staff, termination of the license on design works on 21.12.2002 and retirement of the General Director, a decision was made to liquidate the company (Minutes #44, dated 18.06.2002, of the General Meeting of Shareholders ZAO *Svyazproject*). At present, the Company is under liquidation.

## ***XI. MAIN RISK FACTORS***

### **OVERVIEW OF COMPETITION**

#### GENERAL SITUATION.

Competition in the telecommunications industry gets tougher. Active development of technologies, integration with computer facilities result in a growth of a number of various innovative non-traditional telecommunication services, and also in a growing number of companies that are ready to provide these services, as the threshold of entering the market becomes lower. The market share of non-traditional

services had grown from 13% in 1999 up to 44% in 2001. In general, about 2,000 companies – potential competitors – have the right to provide telecommunication services in the telecommunication market of THE SUPER-REGIONAL COMPANY *CenterTelecom*. In total, they own over 3,000 licenses. Moscow region has the biggest share of licenses – 34%. The majority of licenses (26%) are granted for local telecommunication services. Then follow telematic services – 22% of all licenses, and data transfer services – 19% of all licenses.

Active redistribution of the income share goes on in favor of cellular communication operators. Growth of consumption of telecommunication services surpasses the growth of the level of socio-economic development of the region. But as surveys in the most developed regions of the Central Federal Area show, demand for mobile telecommunication services is satisfied, that is why, one should not wait for further growth a share of the traffic, captured by them, at least, under the current level of prices and tariffs.

Following the world telecommunication service industry, processes of merging of major Moscow telecommunication operators started in Russia, and all or nearly all major companies take part in these processes, which most probably would result in evolving of even stronger players that are getting ready for active expansion in the service area of *CenterTelecom*.

All the above listed processes are indicators of the fact that competition is brought to a qualitatively new level. Traditional telecommunication operators lose their monopoly positions and would be forced to learn to survive under “ordinary” market conditions.

The table below contains information about telecommunication operators that operate in five most developed regions of the Central Federal District.

<b>Name</b>	<b>Region</b>	<b>Service</b>	<b>Status</b>	<i>Market share</i>	<i>Niche (specific features of the customer base)</i>
<i>Comstar</i>	Moscow region and other regions	Telephony, Internet, hosting, ISDN, videoconferencing, integration with mobile communication.	Nationwide operator	2%	Business sector, in future – also orientation at natural persons.
<i>Combellga</i>	Moscow region	Telephony, Internet, ADSL, ISDN, videoconferencing.	Nationwide operator	< 5%	
<i>Comcor</i>	Moscow and Moscow region	The whole range of services on the basis of Internet.	Local operator	< 20%	Mostly business sector -70%, natural persons – 30%. Prospective segment – major companies.
<i>Demos-Internet</i>	Moscow region and other regions	Internet access, telephony.	National operator	> 20%	Dominating market niche – natural persons (about 90%), business sector about 20%. Prospective segment – major companies with heavy traffic.
<i>Telmos</i>	Moscow, Moscow region (greater Moscow area – 20-30 km)	Internet access, hosting.	Local operator	0.2%	Corporate customers, providers. Does not work with natural persons. Prospective segments – small and medium businesses, industry, cottage estates.
<i>MTU-intel</i>	Moscow and Moscow region (about 25 towns)	Switched and dedicated (ADSL) access, IP-telephony.	Local operator		Natural persons about 12 thousand. In region about 300 thousand. In Moscow. Business sector – about 800 legal entities. Prospective segments – small and medium businesses, industry, town-house settlements
<i>Votech-Mobile</i>	Voronezh, Liski, Ramon	Cellular communication services, telematics, videoconferencing, voice	Local operator	About 10%	Natural persons 70%, business sector 30%. Prospective segment – legal entities.

		communication.			
<i>TeleRoss</i>	Voronezh region	Telephony, Internet access, data transfer, telematics.	Local operator	About 1%	Does not work with natural persons, business sector – 100%. Prospective segments – banks, major companies, defense industry.
<i>ICI Informsvyaz-Chernozemlya</i>	Voronezh region	Internet access and data transfer, telematics, IP-telephony.	Local operator	IP-telephony 0.5%, Internet via a dedicated line 50%, via a switched line 35%	Business sector 60%, natural persons 40%, prospective segments – banks, construction companies.
<i>Comincom</i>	Russia (data on Voronezh region)	Internet access and data transfer, telematics, IP-telephony.	National operator	In the telephony market 5%, dedicated lines 2%, switched lines 7%	Natural persons – about 20%, business sector about 90%, prospective segments – private trade, commercial structures.
<i>Intercon</i>	Voronezh region	Internet access (mostly via a dedicated line) and data transfer, telematics.	Local operator	20% via dedicated line	Natural persons - 1%, business sector - 99%, prospective segments – commercial structures, banks, private trade.
<i>TransTelecom</i>	Voronezh region and other regions	Internet access and data transfer.	Departmental operator		Natural persons 100%, prospective segments – oil and gas companies, metallurgy.
<i>Codotel</i>	Voronezh, Voronezh region	Cellular communication (local in the CDMA standard and long-distance).	Local operator	About 10% in the market of the local cellular communication	Natural persons 70%, business sector 30%, prospective segments – small and medium commercial companies (including industrial ones).

**Information on some risk factors related to government policies, including the industry regulations.**

1. Detachment of the Licensing Department from the Ministry of Telecommunication with its transfer to a body, which is outside the Ministry of Telecommunication jurisdiction. Which might mean introduction of such changes in the conditions of obtaining licenses for providing telecommunication services that would facilitate competitors' access into the industry.

2. Final taking effect of the RF Government Regulation on 0.3% deduction from income of the companies that provide telecommunication services for maintenance of regional bodies of the system of State supervising bodies of communications and information technology.

Probable strengthening of a role of MAP in view of the forthcoming elections.

## ***XII. INFORMATION ABOUT THE COMPANY BODIES***

- General Meeting of Shareholders – the Company’s supreme governing body;
- Board of Directors;
- General Director;
- Management Board;
- Audit Commission.

### **12.1. Board of Directors**

#### **I. Number of meetings in 2002:**

- 31 meetings

#### **II. Issues reviewed during the meetings:**

1. About handling accounts payable and debt instruments restructuring.
2. About completion of activities to improve the Company’s management structure.
3. About completion of activities to prepare and carry out the reorganization.
4. About taking measures on investors relations and development of the OTC market.
5. About the progress of fulfilling the decisions previously adopted by meetings of shareholders and the Board of Directors.
6. Approval of securities issuer report.
7. About staff reserve.
8. Approval of an additional assignment for General Director.
9. On the progress in gaining competitive edge of telecommunication services.
10. On accepting the program of public relations activities and corporate information disclosure.
11. Review of the of Company’s organizational chart.
12. On the accounts receivable status.
13. On arrangement and conduct of annual general meeting of shareholders including compliance of the Company’s Charter and internal documents to with applicable effective legislation.
14. Approval of JSC CenterTelecom budget
15. Approval of the interest rate on the coupon of the first bond issue.
16. About approval of Program on investors relations and development of OTC market for the Company’s securities.
17. About progress in meeting the key target indicators of the business-plan.
18. About General Director’s bonus.
19. Approval of the marketing strategy of the super-regional company.
20. On the concept of international activities of the super-regional company.
21. Approval of the adjusted business-plan.
22. About the reorganization activities progress.
23. Awarding audit services contract.
24. About introduction of separate accounting.

25. Review of reports according to the international accounting standards.
26. About the results of measures to correct the irregularities mentioned in the analytical part of the auditor's report.
27. About implementation of the Working program to manage the risks arising from reorganization process.

Information about Company's Board of Directors: quantity and members of the current Board of Directors:

##	Full name	Bornh	Positions held within the last 5 years	Shareholding
1.	Valery Nikolayevich Yashin	1941	1996-2000 General Director of JSC <i>Peterburgskaya Telephonnaya Set</i> Since 2000 General Director of JSC <i>Svyazinvest</i>	no
2.	Alexander Vladimirovich Lopatin	1964	From 1999 – up till now Deputy General Director of JSC <i>Svyazinvest</i>	no
3.	Vadim Yevgenievich Belov	1958	1998 – 1999. Managing Director of the Moscow representative office of <i>SPK Capital Limited (Cyprus)</i> From 1999 up till now Deputy General Director of JSC <i>Svyazinvest</i>	no
4.	Oksana Valerievna Petrova	1973	1997 – 1999 Class 3 Government Service Counselor of the Federal Agency of the Natural Communication Monopolies Regulation (FSEMS Russia) 1999 – 1999. Chief specialist of the RF Ministry on Antimonopoly Policy and Support of Entrepreneurship. From 1999 up till now. Deputy Head of Section on Methodology and Information of JSC <i>Svyazinvest</i> Corporate Management Department.	no
5.	Ruben Andronikovich Amaryan	1949	1997 - 2000. Deputy General Director JSC MGTS. From 2000 up till now. General Director of JSC CenterTelecom	190373 pcs.
6.	Oleg Ivanovich Betin	1950	1998 - 1999. Plenipotentiary of RF President in Tambov region From 1999 up till now. Head of Tambov Region Administration	864 pcs.

7.	Alexander Pavlovich Gribov	1972	1990 - 1999. The RF army military service From 1999 up till now. Deputy Head of Administration – Department Head of Federal Property Russian Fund	no
8.	Yuri Andreevich Pavlenko	1947	1991 - 1999. General Director of ZAO <i>Comstar</i> 1999 - 2002. 1 <sup>st</sup> Deputy RF Minister on Communication and Information of the RF Ministry of Communication. From 2002 up till now. General Director of JSC Megafon	no
9.	Alexander Vyacheslavovich Ikonnikov	1971	1997 - 1999. Head of Foreign-Trade Operations and Investments Attraction Department into the Fuel and Energy Complex sectors of the RF Fuel and Power Engineering Ministry. 1999 – 2000 Deputy President of SRO NAUFOR (Self-Regulating National Association of Stock Market Participants). 2000 - 2002. Executive Director of Investor Rights Protection Association. From 2002 up till now. – Board Chairman of the Independent Directors Association	no

**Changes in the Board of Directors that took place during the reported period:**

**The Board of Directors membership from June 01, 2001 to June 05, 2002:**

##	Full Name	Born	Place of work and positions for the last 5 years	Stake (# of shares)
1.	Ruben Andronikovich Amaryan	1949	1997 - 2000. Deputy General Director of JSC MGTS. From 2000 up till now. General Director of JSC CenterTelecom	190,373

2.	Petr Anatolievich Yefanov	1962	1998 - 1999. First Vice-President, Finance and Economics of EA <i>EEEEK Corporation</i> 1999 - 2000. Counselor of Industrial Financing Department of RF Finance Ministry 2000 up till 2000. Chairman of the Moscow Regional Property Management Committee From 2000 up till now. Property Management Minister of Moscow Region Government	
3.	Sergey Nikolayevich Koshman	1963	1998 - 1999 Executive Director of ZAO <i>Torgovye Ryady</i> 1999 - 1999 Chief Specialist of Entrepreneurship Development and Support Department of RF Antimonopoly Policy Ministry 1999 up till now. First Deputy Minister of Moscow region Government – Head of Moscow Region Government Secretariat	
4.	Kent Nordin	1970	1996 - 2001. Analyst - Deputy Director of Prosperity Capital Management	
5.	Yuri Andreevich Pavlenko	1947	1991 - 1999. General Director of ZAO <i>Comstar</i> 1999 - 2002. 1 <sup>st</sup> Deputy RF Minister on Communication and Information of the RF Ministry of Communication. From 2002 up till now. General Director of JSC <i>Megaphone</i>	
6.	Vadim Yevgenievich Belov	1958	1998 – 1999. Managing Director of the Moscow office of <i>SPK Capital Limited</i> (Cyprus) 1999 up till now Deputy General Director of JSC <i>Svyazinvest</i>	
7.	Oksana Valerievna Petrova	1973	1997 – 1999 Class 3 Government Service Counselor of the Federal Agency of the Natural Communication Monopolies Regulation (FSEMS Russia) 1999 – 1999. Chief specialist of the RF Ministry on Antimonopoly Policy and Entrepreneurship Support. From 1999 up till now. Deputy Head of Section on Methodology and Information of JSC <i>Svyazinvest</i> Corporate Management Department.	
8.	Valery Nikolayevich Yashin	1941	1996 -2000 General Director of JSC <i>Peterburgskaya Telephonnaya Set</i> From 2000 General Director of JSC <i>Svyazinvest</i>	
9.	Alexander Vladimirovich Lopatin	1964	From 1999 up till now. Deputy General Director of JSC <i>Svyazinvest</i>	

**The main criteria to determine the remuneration of a member of the Company's Board of Directors are as follows:**

Remuneration of a member of the Board of Directors shall be paid once a year in the amount of 0.4% of the annual profit remained at the Company's disposal, within 60 days after the regular shareholders meeting.

## 12.2. General Director

**Mr. Ruben Andronikovich AMARYAN was born in May 12, 1949 in Moscow. In 1971 he graduated from the Moscow Electrotechnical Communication Institute with a degree in Automatic Electric Communications. Married, has two children.**

In 1973 began his working career. Since 1981 he was working in communication companies, since 1991 till 2000 he held various senior executive positions in JSC *MGTS*, since June 30, 2000 – CEO of JSC CenterTelecom .

### **Scientific degrees and titles:**

Doctor of Engineering degree	-1998
Senior Staff Researcher of the Defense Industry Academy	- 1998
member of the Academy of Natural Sciences	- 2000
Full member of the International Telecommunication Academy	- 2001
title – Professor of Moscow Academy of Labor Market and Information Technologies	- 2002

Mr. R. Amaryan is an author of scientific papers and studies.

<b>Awards:</b> medal In the Memory of 850. Anniversary of Moscow	- 1997
Title Master of Communication	-1999
badge of Honorary Radio Operator	-2001
title Honored Communication Worker of the Moscow Region	- 2001
departmental medal of the RF Special Construction Federal Service For Distinguished Service	- 2002
honor title of the RF Ministry of Civil Defense, Emergency Situations and Natural Disasters	
Elimination For Services	- 2002

**The amount of remuneration of Mr. R. Amaryan for 2002 including all remunerations (time rate, allowance for working with state secrets, by-work remuneration, contract fee, Board of Directors member's fee, one-off bonuses for meeting special important targets) is 2.11 % of Company's payroll amount.**

## 12.3. Management Board

### **Members of the Management Board as of 2002:**

1. R.A Amaryan. – Chairman of the Board Members:
2. A.A.Lokotkov
3. P.N.Martyshechkin

4. M.A.Pegasov
5. E.M.Zhuravleva
6. N.V.Mezhuev
7. A.V.Galaev
8. R.P.Konstantinova
9. A.I. Polnikov

Brief background:

**Full Name** RUBEN ANDRONIKOVICH AMARYAN

**Position** General Director of JSC Central Telecommunication Company

**Date of birth** May 12, 1949 **Place of birth** Moscow

**Nationality** Russian Federation

**Education (graduated from, when)** *higher*, in 1971 graduated from the Moscow Electrotechnical Communication Institute, in 1993 had a traineeship in Duke University Fuqua School of Business (USA)

**Specialty** automatic electric communications

in 1998 received a scientific degree of Doctor of Sciences in Technology;

in 1998 promoted to a scientific position of Senior Staff Researcher of the Defense Industry Academy, 1998;

member of the Academy of Natural Sciences – 2000;

full member of the International Telecommunication Academy – 2001;

in 2002 obtained a title of Professor of Moscow Academy of Labor Market and Information Technologies.

**Service record: in telecommunication companies** since 1981, **in this Company** since June 30, 2000,

**in the present position** since June 30, 2000,

**Ownership of the Company's ordinary shares - 94 000.**

**Awards:** medal In the Memory of 850 Anniversary of Moscow - 1997,  
Titles Master of Communication - 1999,  
Honored Communication Worker of Moscow Region - 2001; awarded a  
breastplate Honorary Radio Operator - 2001.

#### PREVIOUS POSITIONS

30.06.00	17.06.01	General Director of Joint-Stock Company Elektrosvyaz of the Moscow region, 1 Moscow
18.06.01	up now	till now
		General Director of Open Joint-Stock Central Telecommunication Company, Moscow

**Full Name** ALEKSEI ALEKSEEVICH LOKOTKOV

**Position** First Deputy General Director - Financial Director of  
JSC CenterTelecom

**Date of birth** April 25, 1950. **Place of birth** Moscow

**Nationality** Russian Federation

**Education (graduated from, when)** *higher*, in 1977 graduated from extra-mural All-Union Engineering and Construction Institute.

**Qualification** construction engineer

in 2001 received Ph.D. in technology.

**Service record: in communication companies** since 1975,

**in this company** since July 2000,

**in current position** since June 18, 2001.

**Ownership of the Company's ordinary shares** - 79 000.

#### **PREVIOUS POSITIONS**

07.2000 06.2001 First Deputy General Director of Joint-Stock Company Elektrosvyaz of the Moscow region, Moscow

06.2001 up till now First Deputy General Director of Open Joint-Stock Central Telecommunication Company, Moscow

**Full Name** MAKSIM ALEKSANDROVICH PEGASOV

**Position** Deputy General Director - Technical Director of JSC CenterTelecom

**Date of birth** April 02, 1966

**Place of birth** Moscow

**Nationality** Russian Federation

**EDUCATION (GRADUATED FROM, WHEN) HIGHER, IN 1984 GRADUATED FROM THE MOSCOW ELECTROTECHNICAL COMMUNICATIONS INSTITUTE.**

**Qualification** telecommunications engineer

**Service record: in communication companies** since August 1988,

**in this company** since 2000.

**in the present position** since 09.2000.

**Ownership of the Company's ordinary shares** - 3 000.

#### **PREVIOUS POSITIONS**

07.2000 06.2001 Deputy General Director of Joint-Stock Company Elektrosvyaz of the Moscow region, Moscow

06.2001 02.2003 Deputy General Director of Open Joint-Stock Central Telecommunication Company, Moscow

02.2003 up till now Deputy General Director - technical director of JSC CenterTelecom , Moscow

**Full Name** NIKOLAI VIKTOROVICH MEZHUEV

**Position** Deputy General Director – director of Moscow branch of JSC CenterTelecom

**Date of birth** November 02, 1962

**Place of birth** Stakhan, Voroshilovgrad region

**Nationality** Russian Federation

**Education (graduated from, when)** higher, in 1984 graduated from the Kiev Higher Military Telecommunications Engineering School.

**Qualification** telecommunications

**Service record: in communication companies** since 2000,

**in this company** since 2000,

**in the current position** since March 03, 2003.

**Ownership of the Company's ordinary shares** - 1 000.

**PREVIOUS POSITIONS**

07.2000	06.2001	Deputy General Director of Joint-Stock Company <i>Elektrosvyaz</i> of the Moscow region, Moscow
06.2001	02.2003	Deputy General Director of Joint-Stock Central Telecommunication Company, Moscow
03.2003	up till now	Deputy General Director – Director of Moscow branch of JSC CenterTelecom, Moscow

**Full Name**     **ELLA MIKHAILOVNA ZHURAVLEVA**

**Position**             Deputy General Director - Head of Human Resources  
Department of JSC CenterTelecom

**Date of birth**         March 03, 1961

**Place of birth**     Moscow

**Nationality**         Russian Federation

**Education (graduated from, when)** higher, in 1984 graduated from the Moscow Plekhanov's Institute of National Economy.

**Qualification**         finances and credit (economist)

in 2002 received Ph.D. degree in technology.

**Service record:**     **in communication companies** since 1984,

**in this company** since September 15, 2000,

**in the current position** since November 01, 2000.

**Ownership of the Company's ordinary shares** - **7 000**.

**PREVIOUS POSITIONS**

09.2000	10.2000	Personnel relations chief, Joint-Stock Company <i>Elektrosvyaz</i> of the Moscow region, Moscow
11.2000	06.2001	Deputy General Director – Head of HR, Joint-Stock Company <i>Elektrosvyaz</i> of the Moscow region, Moscow
06.2001	up till now	Deputy General Director – Head of HR, Joint-Stock Central Telecommunication Company, Moscow

**Full Name**     **PETR NIKOLAEVICH MARTYSHECHKIN**

**Position**             Director of Radio Communication and Broadcasting JSC  
CenterTelecom

**Date of birth**         April 15, 1956.         **Place of birth**         Moscow

**Nationality**         Russian Federation

**Education (graduated from, when)** higher, in 1978 graduated from the Moscow Electrotechnical Communications Institute.

**Qualification**         multichannel telecommunications

**Service record:**     **in communication companies** 22 years,

**in this company** since August 22, 1978,

**in the current position** since September 07, 2000.

**Ownership of the Company's ordinary shares** - **15 000; 19 000 preferred shares**.

**PREVIOUS POSITIONS:**

09.2000	06.2001	Deputy General Director – Head of Radio Communication and Broadcasting Department of Joint-Stock Company <i>Elektrosvyaz</i> Moscow region, Moscow
06.2001	04.2003	Deputy General Director - Head of Radio Communication and Broadcasting Department of Joint-Stock Company <i>Central Telecommunication Company</i> , Moscow
04.2003	up till	Director of Radio Communication and Broadcasting Operations

now Department of JSC CenterTelecom , Moscow

**Full Name** GALAEV ANDREI VASILIEVICH  
**Position** Deputy Director of Moscow Branch of JSC CenterTelecom -  
 Technical Director  
**Date of birth** May 23, 1962  
**Place of birth** Murmansk  
**Nationality** Russian Federation  
**Education (graduated from, when)** higher, in 1992 graduated from the Moscow  
 Technical Communication and Information  
 University.  
**Qualification** economics and communication management  
**Service record: in communication companies** - since April 05, 1993,  
**in this company** - since 10.10.2000, **in work status** - since March 03, 2003.  
**Ownership of the Company's ordinary shares** - 500.

#### PREVIOUS POSITIONS

10.2000	05.2001	First Deputy Head of Telecommunication Technical Operations Department, Deputy General Director – Head of Telecommunication Technical Operations Department of Joint-Stock Company Elektrosvyaz of the Moscow region, Moscow
06.2001	03.2003	Deputy General Director – Head of Telecommunication Technical Maintenance Department of Joint-Stock Central Telecommunication Company, Moscow
03.2003	up till now	Deputy Director – Technical Director of Moscow Branch of JSC CenterTelecom , Moscow

**Full Name** RAISA PAVLOVNA KONSTANTINOVA  
**Position** chief accountant of JSC CenterTelecom  
**Date of birth** January 6, 1954. **Place of birth** Moscow  
**Education (graduated from, when)** higher, in 1977 graduated from the  
 Moscow  
 Steel and Alloy Institute.  
**Qualification** metal engineer  
**Service record: in communication companies** 20 years,  
**in this company** since September 15, 2000.  
**in the present position** since September 15, 2000.  
**Awards:** in 1997 awarded with an anniversary medal In the Memory of 850th  
 Anniversary of Moscow  
**Ownership of the Company's ordinary shares** - none

#### PREVIOUS POSITIONS

09.2000	06.2001	Chief Accountant of Joint-Stock Company Elektrosvyaz of the Moscow region, Moscow
06.2001	up till now	Chief Accountant of JSC CenterTelecom, Moscow

**Full Name** ALEXANDR ILICH POLNIKOV  
**Position** – Executive Director – Director of Investment Management Department,  
 JSC *Svyazinvest*  
**Date of birth** September 11, 1943.  
**Place of birth** Semenovka village, Bogatov district, Kuibyshev region  
**Education (graduated from, when)** higher, the Kuibyshev Electrotechnical  
 Communications Institute, the Academy of National  
 Economy

**Qualification** radio communications and broadcasting engineer

Scientific title - Academician

**Service record: in communication companies** 40 years,

**in the current position** 5 years

**Awards:** Honored Constructor of the Russian Federation

**Ownership of the Company's ordinary shares** - none

## PREVIOUS POSITIONS

1998 up till now Executive Director – Director of Capital Investments Management Department of JSC *Svyazinvest*

Total remuneration of the Board of Directors, General Director and members of the Board of Directors is RUR 6,942,421.

### 12.4. Audit Commission

Prior to the general meeting of shareholders on June 05, 2002 the Audit Commission was composed of the persons elected at the meeting of shareholders held on June 01, 2001.

#### Chairman of the Audit Commission:

1. D.A. Milovantsev– Head of Internal Audit and Economic Analysis Department, JSC *Svyazinvest*

#### The Commission Members:

2. K.V. Belyaev– Chief Accountant, JSC *Svyazinvest*
3. Plyusnin A.B. – Head of Corporate Reorganization Department of JSC CenterTelecom

Within the reported period current members of the Audit Commission starting from Match 11, 2002 until March 22, 2002 carried out an audit of JSC CenterTelecom annual accounting.

According to the report by the Audit Commission the accounting reports were prepared in order to reflect the Company's assets and liabilities as of January 01, 2002 and financial results of its operations during 2001 based on the RF Ministry of Finance standard requirements.

3 persons were elected members of the Audit Commission at the shareholders meeting of JSC CenterTelecom held on June 05, 2002:

**Chairman:** I.V. Prokofieva–Deputy Director – Head of Internal Audit and Economic Analysis Department, JSC *Svyazinvest*

**Members of the Commission:** A.B. Plusnin–Head of Corporate Reorganization Department, JSC CenterTelecom

K.V. Frolov–Chief Expert, Internal Audit and Economic Analysis Department, JSC *Svyazinvest*

The Audit Commission held two field audits during the reported period. The Companies being included into JSC CenterTelecom as regional branches were checked by those Companies' Audit Commissions during the reported period. The audit results were brought up to be approved by the Company Board of Directors.

Based on the Regulations on the Audit Commission of Joint-Stock Central Telecommunication Company the Audit Commission of JSC CenterTelecom, including:

- I. Prokofieva
- K. Belyaev
- K. Frolov
- A. Plyusnin
- K. Kravchenko

conducted a check of the annual accounting reports (financial statements) for 2002.

The check was carried out from April 1, 2003 through April 4, 2003 along the following lines:

- test of data contained in the annual report and accounting reports for 2002;
- accounting and bookkeeping, and provision of financial reporting data in 2002.

In the reporting period checks of entities joined to JSC CenterTelecom as wholly owned regional subsidiaries were conducted by respective audit commissions. Results of the checks were submitted for review by Boards of Directors of respective companies.

#### General reference information

Full name of the company: Joint-Stock Central Telecommunication Company.

Legal address: 23 Proletarskaya Street, Khimki, Moscow region, 141400, Russia.

Head office location: 6 Degtiarny Pereulok, Building 2, GSP 3, Moscow, 125993, Russia.

Date of the company's state registration: July 23, 1997. Basic state registration number: 1025006174710 (with additions of November 30, 2002).

Persons responsible for the financial and business activity of the Company in the reporting period are:

R. Amaryan, General Director

R. Konstantiniva, Chief Accountant.

The general meeting of shareholders is the supreme governing body of the Company; in between the meetings the Board of Directors chaired by the Chairman is the supreme governing body. The Management Board headed by the General Director is the Company's executive body.

The check established the following:

The Company in its financial and business activity is guided by provisions of the Civil Code, Tax Code, and other applicable legislation of the Russian Federation.

Accounting reports (financial statements) are prepared based on the requirements of the Federal law of November 21, 1996 #129-FZ On bookkeeping and accounting reports (as subsequently amended and altered), regulations on bookkeeping and accounting reports, approved by Order #34n of July 29, 1998, Order #43n of July 6, 1999 On approval of regulations on accounting – “Accounting of organizations” (PBU 4/99), Order #60n of June 28, 2000 On guidelines for organizations to calculate accounting data (as amended and supplemented), all issued by the Ministry of Finance (MoF) of the Russian Federation.

The check included verification on a selective test basis of figures and numbers, and explanations contained in the accounting reports.

In the opinion of the Audit Commission the accounting data do not make it possible to obtain reliable information with respect to reflection of operations related to sales of services by Lyuberetski local branch of the Company. Neither is it possible to confirm the moment when accounts receivable with respect to settlements with subscribers started to build-up; due to this and other violations of accounting for billing, it appeared impossible to confirm allocations to cover doubtful debt provisions and their total amount.

Apart from some reservations, the Company's Audit Commission found no material breaches of rules and regulations governing bookkeeping and accounting that might significantly affect credibility of the accounting reports.

The accounting reports of JSC Central Telecommunication Company present comprehensive and objective information on the financial and business processes and results of the Company's activities required for day-to-day running and management of the Company, and for using this information by investors, suppliers, purchasers, creditors, tax and financial authorities, banks and other interested parties.

#### Conclusion

In the opinion of the Audit Commission members, apart from some reservations, the accounting reports are prepared in such a manner as to ensure reflection of assets and liabilities of the Company as at December 31, 2002 and results of its financial activities in 2002 based on provisions of statutory acts issued by the Ministry of Finance of the Russian Federation (Orders #34n of July 29, 1998, #43n of July 6, 1999, #60n of June 28, 2000 as amended and altered.

### ***XIII. CORPORATE CONDUCT***

#### **INFORMATION ON OBSERVANCE OF THE CODE OF CORPORATE BEHAVIOUR BY THE COMPANY:**

Taking into account the established practice of business relations and intending to improve the Company appeal for existing and potential investors and business partners, the JSC CenterTelecom follows the basic principles and procedures of corporate management in its activity in compliance with provisions of the Corporate Code of Conduct, recommended by the Federal Commission for the Securities Market of RF.

#### **14.1. To ensure exercising by shareholders of their rights related to their participation in the Company.**

The Company's Charter sets forth a possibility for its shareholders to exercise their rights in compliance with the RF legislation:

- shareholders that own on aggregate not less than 2% of voting shares have the right to introduce their proposals into the agenda of the general shareholder meeting, to propose candidates for governing and management bodies of the Company;
- shareholders take part in management of the Company, by approving decisions on the most important issues of activity at general meetings of shareholders or taking part in absentee voting on all agenda issues;
- shareholders participate in the Company's profit, receiving dividends, in terms, specified in the Company's Charter for dividend payment;
- shareholders are provided with a reliable registration of the rights of ownership on shares of the Company in the system of register keeping by an independent Registrar – *ZAO Registrator-Svyaz*;
- shareholders have a possibility to receive from the Registrar a documentary confirmation of their rights on shares of the Company by means of an extract from the shareholders' register on their own demand;
- shareholders have a possibility to alienate their own shares freely and immediately without consent of other shareholders and the Company;
- shareholders receive complete and authentic information about activity and financial position of the Company, including a negative one, and receive information about the structure of the capital and the major shareholders of the Company in proper time.

During the period of preparation for annual and extraordinary general meetings, shareholders receive information on all issues that are in the agenda, which allows them making weighed decisions on the most important issues and objectively assess results of the Company's activity.

#### **14.2. Ensuring equal treatment of shareholders that own equal numbers of shares of the same type.**

The Company adheres in its activity to principles of equal treatment of shareholders, excluding preferential satisfaction of interests of some groups of shareholders against others, taking into account rights and interests of minority shareholders, properly carrying out its commitments to shareholders and preventing appearance of conflict situations.

#### **14.3. Carrying out strategic management of the Company's activity and control over activity of executive bodies by the Board of Directors.**

Authorities and powers of the Board of Directors – a collective body of the Company management – are specified in the Company's Charter and Provisions on the Board of Directors, approved by a general shareholder meeting.

Board of Directors determines priority directions of the Company activity, approves annual budget of the Company, medium-term and long-term prospects budgets,

determines a strategy and programs of the Company development, initiates calling of annual and extraordinary shareholder meetings, takes into account possible risks in the Company activity and carries out control over operation of executive bodies.

Board of Directors ensures the most efficient management of the Company activity in the interests of all shareholders and ensures observance of rights of shareholders.

An independent director forms a part of the Board of Directors with the purpose of working out objective decisions and assessment of activity of executive bodies of the Company, and also with the purpose of growth of trust to the Company from the investors' side.

#### **14.4. Management of the current activity by executive bodies of the Company and their accountability to the Board of Directors.**

The Management Board is a joint executive body of the Company, which organizes execution of decisions of the Board of Directors and general shareholder meeting.

Authorities and membership of the Management Board are specified in the Company's Charter and Regulations on the Management Board, approved by a general shareholder meeting.

Management Board ensures management of the current activity of the Company, development of technical, financial and economic, tariff, staff and social policies, main directions of activity of the Company, development of draft budgets, strategies and programs, and organizes control over financial and economic activity.

General Director is a sole person executive body that carries out management of the current activity of the Company, makes decisions on issues that are not within the competence of other management bodies of the Company and performs functions of the Chairman of the Management Board of the Company.

Functions of executive bodies of the Company serve to the interests of both Company and shareholders, ensuring regular operation of the Company.

#### **14.5. Disclosure of information about the Company.**

Information policy of the Company allows timely submission of authentic and complete information, which is subject to disclosure according to the RF legislation, to shareholders and investors. The Company publishes quarterly reports, information about significant facts that affect its financial and economic activity, information about conduct of general shareholder meetings, and results of decision, made by general shareholder meetings, in the Annex to Federal Commission for the Securities Market Herald on a regular and timely basis. Complete annual book-keeping accounts, Annual Report of the Company and lists of affiliated persons are published in a printed periodical, specified in the Company's Charter (*Daily News of the Moscow Region* and *Trud* newspapers), in compliance with terms, specified by the legislation. The Company sends press releases about the most important corporate events to information agencies and ensures a possibility of free access to information shareholders and investors are interested in, in the event this information is not confidential. Announcements, intended for shareholders, were published during the reporting year in printed periodicals (*Daily News of the Moscow Region*, *Trud* and *Rossiyskaya Gazeta* newspapers), which are available for the majority of shareholders, and were published on the Company's website.

In order to provide a maximum number of shareholders with materials on extraordinary and annual meetings, such information was published on the Company's website and distributed among shareholders at the office of the executive body and offices of regional branches – the places of predominant residence of shareholders.

For shareholders – ADR owners – the abovementioned information is provided in English.

#### **14.6. Ensuring control over the financial and economic activity of the Company.**

Control over financial and economic activity of the Company is carried out by the Audit Commission – a special structural unit of the Company – in compliance with the Charter and Provision on the Audit Commission, and also with involvement of an independent professional auditor.

The structure, membership and authorities of the Audit Commission are determined by the Company's Charter and Regulations on the Audit Commission.

The main functions of the Audit Commission are control over performance of the financial and economic plan, and conduct of annual and extraordinary inspections.

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

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