



Moscow

RUSSIAN

FEDERATION

Omsk

Tomsk

Krasnoyarsk

NOVOSIBIRSK

Kemerovo

Barnaul

Abakan

Irkutsk

Gorny
Altai

Ulan-Ude

Chita

Business profile

The open joint-stock company (OAO) Sibirtelecom (until 2002 bearing the name Elektrosvyaz of Novosibirsk region) was formed following privatization of the state enterprise of telecommunications and informatics Rossvyazinform of Novosibirsk region in May 1994.

On November 30, 2002 OAO Sibirtelecom finalized the merger with ten telecom operators of Siberia. From this date on the licensed territory of the Company embraces the whole of Siberian Federal District excluding that of Tyva republic.

The licenses, which belong to OAO Sibirtelecom and its subsidiaries, allow providing the following services:

- local and intraregional telephone communications;
- international and domestic long-distance telephone communications;
- telegraph communications, data transmission and telematics including Internet;

- lease of physical lines, channels and routes of communications including mass media channels;
- broadcasting of audio programs through wireline network;
- radio paging;
- cellular telephone communications;
- mobile radio communications («Altai» type);
- intellectual network communications;
- air and cable television;
- broadcasting of television and radio programs.

OAO Sibirtelecom dominates the wireline market of Siberia and is one of the leading operators and providers of wireless communications.

The Company's partners and/or competitors are Rostelecom, RTCom.ru, TransTelecom and Equant in wireline communications, Mobile TeleSystems, Vypelcom and MegaFon – in mobile communications.

Siberian Federal District

The territory: 4.9 million square kilometers (29,9% of Russia's territory).

The total population as proved by the 2002 census is 20 064 thousand (14% of Russia's population) including 14 282 thousand city inhabitants. Urbanization level is 71%.

Principal cities: Novosibirsk (1 426 thousand), Omsk (1 131 thousand), Krasnoyarsk (912 thousand), Barnaul (604 thousand), Irkutsk (593 thousand), Novokuznetsk (550 thousand). 46% of the population of the Siberian Federal District (SFD) reside in 25 cities.

The SFD represents 12% of Russia's industrial output, 15% of its agricultural output and 8% of its capital investments.

The history and current position of Siberia's economy mostly stem from utilization of its natural resources. The SFD is the country's principal base of coal extraction (Kuzbass), hydropower (Krasnoyarsk, Bratsk, the Sayans), aluminium output (Krasnoyarsk, Bratsk, the Sayans, Novokuznetsk, Achinsk), nickel and copper (Norilsk) and timber production. Oil processing, paper and pulp industries, ferrous metallurgy, extraction and processing

of precious metals, tin and other non-ferrous metals play very important role in the development of Siberian industry. Utilization of new sources of natural resources would provide yet another impetus to economy growth.

Large cities of the district are recognized centers of manufacturing industries including aerospace, machine building, biochemistry and pharmaceuticals.

The south of Siberia is an important agricultural district of Russia producing cereals, meat and dairy products. This gave rise to corresponding food processing industries.

Novosibirsk, the administrative center of the SFD is one of the largest Russian centers of wholesale trade, financial and business services.

Novosibirsk has regional branches of three academies – The Russian Academy of Sciences, The Russian Academy of Medicine and the Russian Academy of Agriculture, thanks to which the city is a world-known scientific and educational center. Well recognized all over Russia are scientific and educational establishments of Tomsk, Omsk, Irkutsk, Krasnoyarsk and a few other regional cities.

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Chapter 1

Key events of 2002

MARCH

On March 12 the shares of ОАО Sibirtelecom as the base company in the merger of telecom operators of Siberia were included in the second level «A» quotation list of the Russian Trading System.

OAO Sibirtelecom received an honorary diploma «The exemplary tax payer of the year» of the Tax Ministry department in Novosibirsk region.

OAO Sibirtelecom participated in CeBIT-2002 (Hanover).

APRIL

On April 16 the Ministry of Antimonopoly Policies and Support of Entrepreneurship issued permission to OAO Sibirtelecom to merge 10 telecom operators of the Siberian Federal District.

Road show of OAO Sibirtelecom in New York and London.

JUNE

The program on issuance and circulation of ADR of OAO Sibirtelecom was defined with JP Morgan Chase Bank.

SEPTEMBER

OAO Sibirtelecom took part in the Baikal economic forum in Irkutsk.

OCTOBER

The Federal Commission on the Securities Market of Russia officially registered securities to be issued through conversion of securities of telecom operators merging with Sibirtelecom.

NOVEMBER

Commercial launch of SibDSL service in Novosibirsk.

On November 30 the shares of merging telecom operators of Siberia were converted into shares of OAO Sibirtelecom. The merged operators ceased to be independent legal entities and were excluded from the State Register of enterprises.

DECEMBER

On October 24 the Board of directors of OAO Sibirtelecom decided to call an extraordinary shareholders' meeting to vote on purchase of 49% of shares of ZAO Eniseytelecom and ZAO Baikalwestcom – leading GSM operators of East Siberia.

OAO Sibirtelecom participated in Telecom Asia 2002 (Hong Kong).

Standard & Poor's started work with OAO Sibirtelecom on corporate management rating.

The Federal Commission on Securities Market of Russia registered reports on securities issued through conversion of securities of Siberian telecom operators merged with OAO Sibirtelecom.

Chapter 2

Highlights

		2001	2002	Increase
Total revenues	RUR mln.	9 600	12 211	2 611
Revenue from sales of telecom services	RUR mln.	9 306	11 913	2 607
Revenue from non-core activity	RUR mln.	294	298	4
Operating income	RUR mln.	2 031	2 778	747
Operating income margin		21.2%	22.7%	
Income before tax	RUR mln.	1 419	916	- 503
Income before tax margin		14.8%	7.5%	
Net income	RUR mln.	912	474	- 439
Net income margin		9.5%	3.9%	
Assets (as of December 31)	RUR mln.	12 057	14 068	2 011
Capital and reserves (as of December 31)	RUR mln.	8 591	8 927	336
Net assets (as of December 31)	RUR mln.	8 655	9 024	369
Earnings per share	RUR	0.068	0.036	- 0.032
Installed switching capacity in local networks				
(as of December 31):				
urban telephone networks	Thousand lines	2 859	3 054	195
rural telephone networks	Thousand lines	717	725	8
Digitalization of switching capacity				
(as of December 31):				
urban telephone networks		45%	51%	
rural telephone networks		8%	11%	
Number of employees	Thousand	51.9	49.6	- 2.3

Chapter 3

Letter from the Chairman of the Board of directors

Dear shareholders!



On November 30, 2002 ten joint-stock telecommunications companies formally merged with OAO Sibirtelecom. The corresponding changes to the Charter were registered on December 26, 2002.

This completed the consolidation of Svyazinvest holdings in the Siberian Federal District. It took a little over two years to transform small operators into a world-size telecommunications company. One can hardly overestimate the importance of this event.

Grand changes are taking place in Russia as a whole and in its telecommunications industry. Following a lengthy period of production decline the country entered a period of sustained economic growth. This immediately affected the demand for telecom services. The population and businesses demonstrate a rising interest towards traditional wireline communications and especially towards Internet, mobile communications, integrated solutions in data, voice and video transmissions. The information society concept is becoming more and more real in Russia. In 2002 the Russian economy was deemed to be

of market status. The country's role and participation in the world's affairs is steadily growing. In parallel to this, internationally accepted rules are all the more applicable in Russia. One of the requirements of our time is further liberalisation of the Russian telecommunications market.

Throughout 2002 we took an active part in the discussion of a new edition of the Law of the Russian Federation «On communications». At the time of writing the annual report of OAO Sibirtelecom the law was passed by the Federal Assembly and signed by the President of the Russian Federation. From January 1, 2004 we shall work under new legislative norms.

A more liberal mode of telecommunications business offers big opportunities. Strong and dynamic players will utilize these opportunities. The former dispersion and corresponding small capacity of companies within the Svyazinvest holding represented a serious threat to their market positions in the face of increased competition. The merger created an important condition to strengthen the competitiveness and accelerate the development of OAO Sibirtelecom.

Throughout 2002 the Board of directors made all necessary efforts for the timely and successful completion of merger procedures. Attention was centred on getting permissions of state bodies for industrial and antimonopoly regulation, on issue and conversion of shares. However, the reorganization did not obscure the targets of the Company's long-term development.

The Board of directors of ОАО Sibirtelecom and representatives of ОАО Sibirtelecom on boards of other merged companies of Siberia approved the management's initiatives to modernize networks, increase their switching capacities and implement new services. Considerable attention was paid to the issues of tariff rebalancing. Active work went on to prepare organizational structures and management systems for new tasks in 2003.

The combined operational results of the merged companies in 2002 are quite positive. Revenues grew by 27%, operating income – by 37% and the share of operating income in revenues grew from 21.2 to 22.7%. Unfortunately, the total net income fell by 48%. The main reasons for this

unfavorable event include creation of unprecedented large provisions for doubtful debts arisen over past years and heavy expenses directly caused by the merger.

The Board of directors considers a decrease in net income to be temporary and even a sort of «price» for the merger. However, out of consideration for our shareholders' income, the Board of directors of ОАО Sibirtelecom recommended to the annual shareholders meeting to pay a higher share of the net income as dividends, namely 27%.

The Board of directors assures that ОАО Sibirtelecom is making full use of new opportunities opened by growing demand, technological progress and higher transparency of the telecommunications business in Russia. With due regard for the complexity of forthcoming tasks we believe that the Company will successfully achieve them.

Chairman of the Board of directors
Georgy Romsky



Chapter 4

Letter from the General Director

Ladies and gentlemen!



The submitted report of OAO Sibirtelecom and ten merged companies refers to the whole of 2002 although prior to November 30, 2002 the eleven our branches were separate entities. There was no single management of these companies' operations, although we followed agreed principles and target figures. Publishing the consolidated report of the 11 companies we intended not only to demonstrate and explain the combined results of the last year but also to illustrate the role and place of each of the merged companies. We believe that in future the report will allow comparing the performance of the united Company with the starting point of 2002.

We firmly intend to follow the policy of informational transparency towards our shareholders and other interested parties. In order to be better understood by foreign investors we shall include in our reports financial accounts prepared in accordance with International Financial Reporting Standards (IFRS).

In 2003 OAO Sibirtelecom for the first time on its own produced financial statements for 2002 basically corresponding to IFRS. Having followed the IAS (International Accounting Standard) 22 «Business Combinations», we presented the financial report in such a way as if the merger took place on January 1, 2002 (the earliest of the reported dates). Our IFRS report is a consolidated statement of the Sibirtelecom group and includes duly consolidated financial results of the parent company (OAO Sibirtelecom), its subsidiaries and associated companies.

The submitted IFRS report includes the Consolidated Balance Sheet as of December 31, 2002, Consolidated Statement of Operations, Consolidated Statement of Cash Flows and

Consolidated Statement of Shareholders' Equity for 2002. The state of accounting registers and automated means for information processing in the merged companies did not allow to produce within a reasonable timeframe a comparative Balance Sheet as of December, 31, 2001, comparative Statement of Operations, Statement of Cash Flows and Statement of Shareholders' Equity for 2001 in accordance with the IAS 1 «Presentation of Financial Statements».

The absence of the basis for comparison of annual results greatly narrowed the scope for analysis and we had to include in our 2002 report the data in accordance with the Russian accounting standards. The RAS statements refer only to the parent company OAO Sibirtelecom, which corresponds to the applicable in 2002 procedure of accounting and reporting.

The main efforts of the management and staff of OAO Sibirtelecom and the ten merged companies were focused on two groups of priorities:

- Merger of the 11 companies strictly in accordance with the approved schedule and creation of structures and management systems of the combined company;
- Strengthening of our market position through accelerated network modernization, offering new products and improving customer service.

All formal procedures of merging companies to OAO Sibirtelecom were completed right on time. By the moment of liquidation of the merged companies (as legal entities) and their exclusion from the State Register of enterprises the necessary management structures including the headquarters of OAO Sibirtelecom and unified management structures of regional subsidiaries

were in place. OAO Svyazinvest guided implementation of new accounting systems in accordance with RAS and IAS, activity-based costing and budgeting. We carefully studied the results of other projects on management development, implemented within the Svyazinvest holding in the Volga and Urals regions. These projects embraced such important subjects as restructuring and postmerger integration, development and implementation of marketing strategy.

In 2002 OAO Sibirtelecom greatly speeded up the process of digitalization of its networks and building technological platforms for new services. The total investments increased by 1.5 times and reached 2.5 billion rubles. The resulting introduction of new capacities grew by 80%, replacement of obsolete switching systems doubled as compared with 2001. Net increase in installed switching capacity was 70% higher than the same in 2001. Digitalization level of local exchanges grew from 37 to 43%. The share of digitalized transmission channels in domestic long-distance networks grew from 57 to 65%. Such advanced technologies as ATM, DSL, IN, DECT continued to be implemented.

The revenues of Sibirtelecom grew by 27%. The revenue growth was influenced by a rise in local telephone tariffs permitted after numerous consultations with the Ministry of Antimonopoly Policy and Support of Entrepreneurship. As for revenue growth from domestic long-distance communications, data transmission, Internet access and other new services it was achieved due to increased volumes of consumption.

The policy of cost cutting led to faster growth of operating income (37%). The operating income margin increased from 21.2 to 22.7%.

We were forced to set up an unprecedented large provision for doubtful debts as formerly it had been set up in only one of the merged companies. This adversely affected the net income, which fell by 48% in 2002.

In 2002 we continued our efforts in staff downsizing. The number of employees was decreased by 4%. Over the year the number of lines per employee increased by 10% and revenues per employee grew by 33%.

In parallel with our traditional wireline business we are striving to become one of the largest mobile operators in Siberia. In the end of 2002 the Board of directors approved our initiative to purchase 49% of shares of two GSM operators - ZAO Eniseytelecom and ZAO Baikalwestcom, thereafter these attractive companies became our 100% subsidiaries. The deal was successfully completed in March 2003.

The stock market is strenuously appraising the Company's performance. We are pleased to note that investors put trust in our plans and practical actions. Over 2002 the company's capitalization calculated on the basis of the market price of ordinary shares grew by 67% and exceeded US\$301 million. If we look at the Company's capitalization as of June 1, 2003 and compare it with that of January 1, 2002, we see that a year and a half later it almost doubled to US\$354 million.

We are optimistic about the future. The executives of OAO Sibirtelecom believe that realization of our plans and programs will considerably strengthen our competitive position, heighten the satisfaction level of our customers and will increase capitalization of Siberia's largest telecom operator.



General director
Anatoly Nikulin

Chapter 5

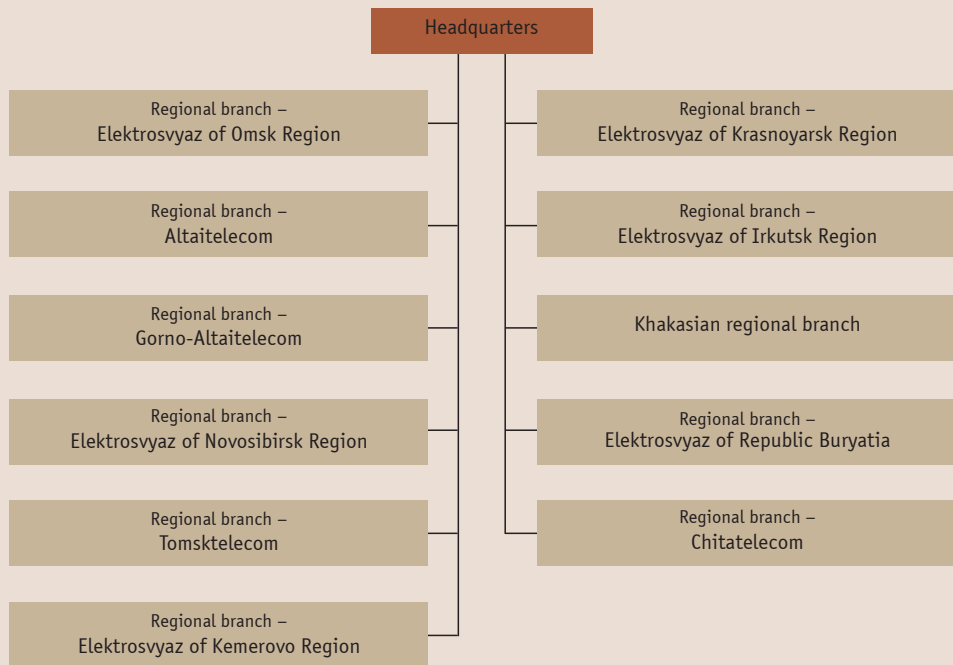
Merger and the structure of the combined company

In accordance with the decision made by the extraordinary shareholders' meeting on December, 21, 2001, on November 30, 2002 OAO Sibirtelecom merged with 10 Siberian telecom operators, including:

- OAO Elektrosvyaz of Altai republic,
- OAO Elektrosvyaz of Buryatia republic,
- OAO Elektrosvyaz of Khakasia republic,
- OAO Elektrosvyaz of Krasnoyarsk region,
- OAO Elektrosvyaz of Irkutsk region,
- OAO Elektrosvyaz of Kemerovo region,
- OAO Elektrosvyaz of Omsk region,
- OAO Elektrosvyaz of Chita region,
- OAO Altai Telephone and Telegraph Company,
- OAO Tomsktelecom.

The organizational structure of OAO Sibirtelecom is represented on the following organigram.

Organigram 1.
Post-merger organizational structure of OAO Sibirtelecom at the end of 2002



Chapter 6 Operational review of 2002

In 2002 revenues from telecom services of ОАО Sibirtelecom reached 11.9 billion rubles (the increase equals 2.6 billion rubles or 28%).

Figure 1.
Revenue from
telecom services
(RUR mln.)

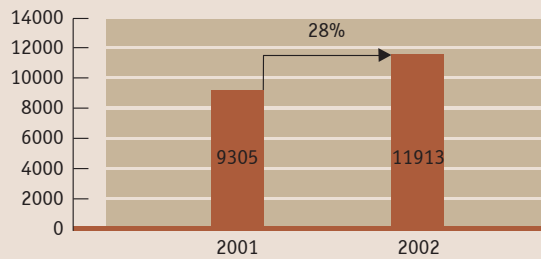
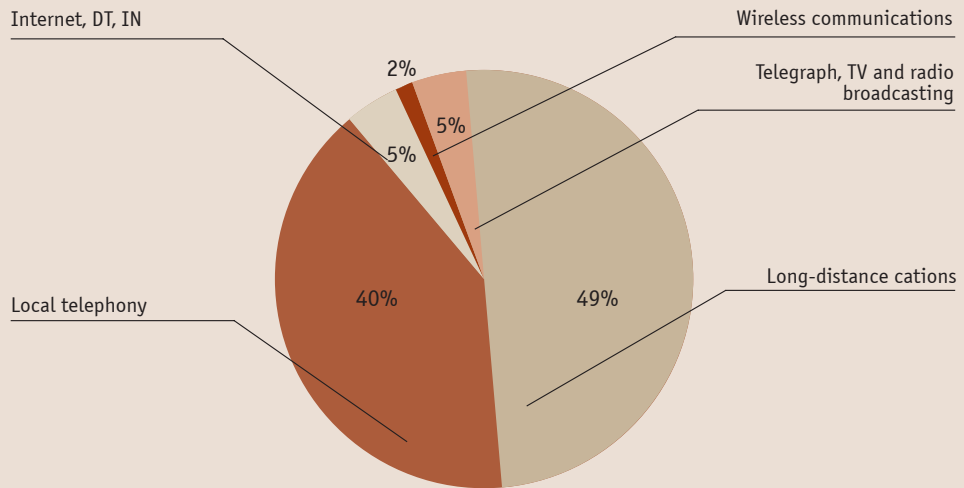


Figure 2.
Breakdown
of revenue by
service in 2002

*IN - intellectual
network



Revenue growth was achieved in all lines of business. According to the Company's estimates, ОАО Sibirtelecom has about 90% of the wireline end-user market, which reflects indisputable dominance on the territory of the Siberian Federal District.

The most important factors of revenue growth in the past year were:

- raised regulated tariffs for a number of telecom services;
- increased volumes of consumption of telephone services, primarily long-distance communications;
- expanded offer of new services to the market.

Table 1.
Revenue from
telecom services

*IN - intellectual
network

	Revenue, RUR mln.		Increase		Revenue breakdown	
	2001	2002	RUR mln.	%	2001	2002
International and domestic long-distance communications	4717	5789	1072	23	50.7%	48.6%
Local telephony	3558	4776	1218	34	38.2%	40.1%
Data transmission, Internet, telematics, IN*	369	569	200	54	4.0%	4.8%
Wireless communications	160	209	50	31	1.7%	1.8%
Telegraph	267	301	34	13	2.9%	2.5%
TV and radio broadcasting	35	40	6	16	0.4%	0.3%
Wireline broadcasting	200	229	29	14	2.1%	1.9%
Total revenue from telecom services	9305	11913	2607	28	100%	100%

Table 2.
Revenue from
new telecom
services

*IN - intellectual
network

	Revenue, RUR mln.		Increase		Revenue breakdown	
	2001	2002	RUR mln.	%	2001	2002
Prepaid cards (IN*)	69	115	45	65	0.7%	1.0%
ISDN	11	23	12	106	0.1%	0.2%
Data transmission, Internet access, telematics	283	402	119	42	3.0%	3.4%
Cellular communications	148	192	44	30	1.6%	1.6%
Wireless access	0	7	6	3048	0.0%	0.1%
Cable TV	0	3	3		0.0%	0.0%
Other new telecom services	0	21	21		0.0%	0.2%
Total revenue from new telecom services	512	762	250	49	5.5%	6.4%

Figure 3.
Revenue from
telecom services
by region in 2002
(RUR mln.)

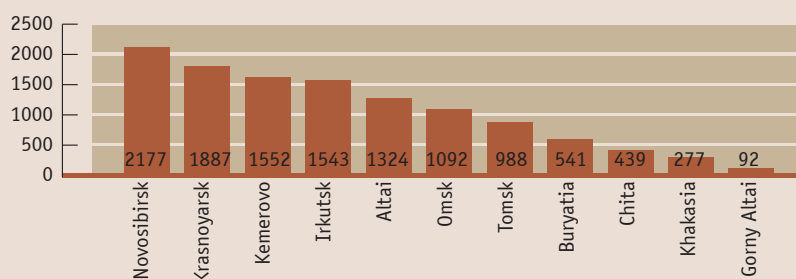
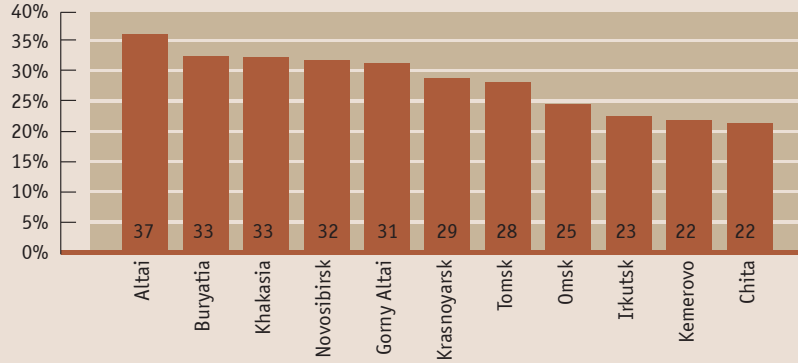


Figure 4.
Revenue growth rates by region in 2002



International and domestic long-distance communications

International and domestic long-distance communications (I&D LD) represents the largest share (49%) of the Company's revenues. In 2002 the revenues from I&D LD reached 5.8 billion rubles having grown by 1.1 billion rubles (23%) as compared with 2001.

Figure 5.
Revenue from I&D LD services (RUR mln.)

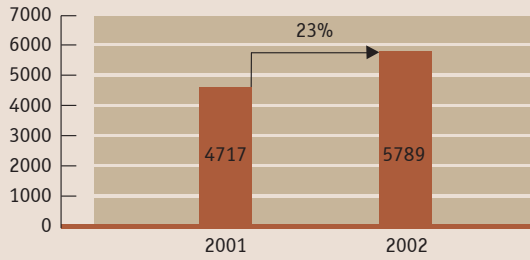
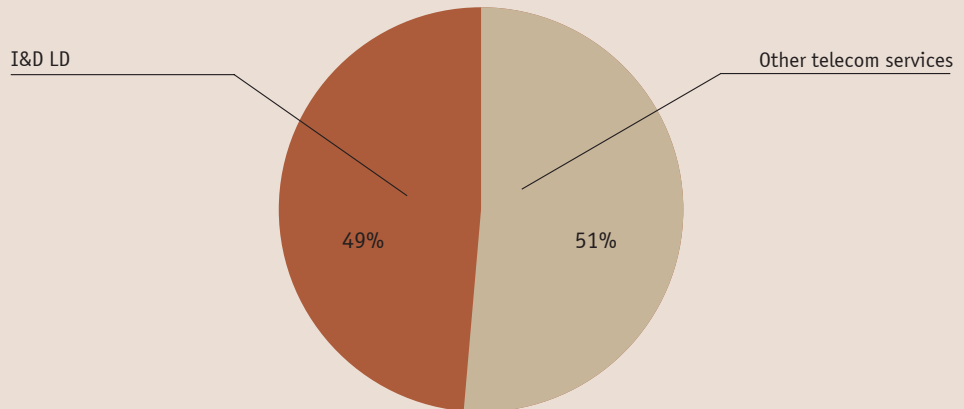


Figure 6.
I&D LD share in total revenues from telecom services in 2002



In 2002 I&D LD traffic was up 19% and equalled 1 498 million minutes. Domestic long-distance traffic increased by 19.5%. This factor determined the revenue growth from domestic long-distance communications by 24% as tariffs were increased only for governmental organisations (by 20%). Revenues from international communications grew strictly in accordance with the traffic growth, that is, by 12%. The highest growth rate in I&D LD was displayed by revenues from provision of network services to other operators and providers. Their growth in 2002 was 30%.

It should be noted that the revenue structure of I&D LD does not include revenue from sales of prepaid cards for long distance calls. These revenues are included in the group of new services of intellectual networks.

Table 3.
Revenue from I&D LD services

	Revenue, RUR mln.		Increase		Percentage in telecom sales	
	2001	2002	RUR mln.	%	2001	2002
Domestic long-distance calls	3 766	4 687	921	24	40%	39%
International calls	748	837	89	12	8%	7%
Network services	204	265	62	30	2%	2%
Total revenue from I&D LD services	4 717	5 789	1 072	23	51%	49%

Urban telephone communications

The revenues from urban telephone communications (UTC) went up in 2002 by 1 billion rubles or by 34% and reached 4.1 billion.

Figure 7.
Revenue from urban telephone communications services (RUR mln.)

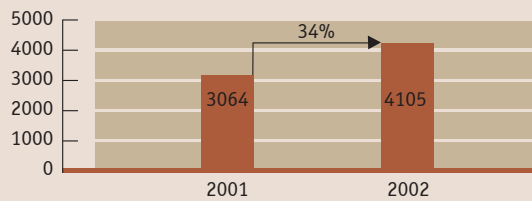
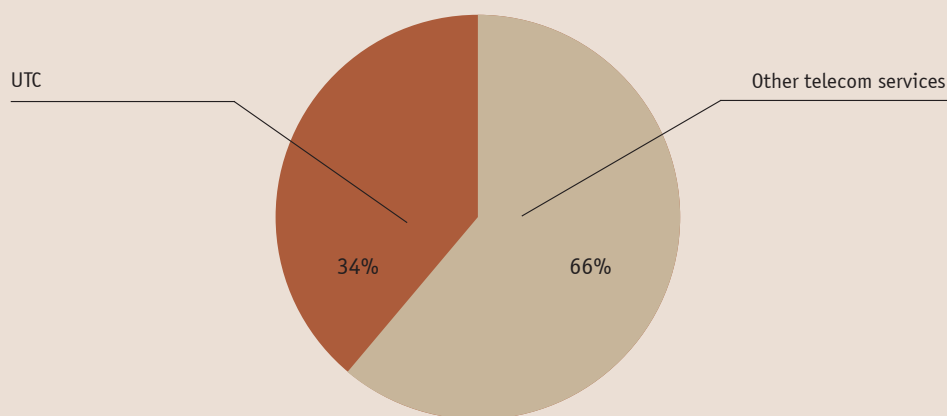


Figure 8.
Urban telephone communications share in total revenue from telecom services in 2002



The principal driver of UTC revenues over the past year was the rise of regulated tariffs. The installation charges for residential subscribers were raised in 6 out of 11 regions: in Krasnoyarsk region it was 100%, in two regions – 33-50%, in three regions – 11-20%. In seven regions the installation charges for organisations were up by 17 to 33%. The subscription fees for residential customers were raised in all regions by 17 to 60%. 8 regions increased subscription fees for organisations; they grew by 10 to 38%.

Per minute billing for urban calls was used in some cities of Altai, Krasnoyarsk, Irkutsk, Kemerovo and Tomsk regions.

The number of urban telephone subscribers grew by 134 thousand or 5% and reached 2 763 thousand by the end of 2002. Another important growth factor was an increase in consumption of other urban telephone communications services (network services, payphones and some other services). Revenues of this group of services grew by 41%. Especially popular are value-added services of digital exchanges such as call forwarding, call waiting, remote control, conference calls, etc. These revenues almost doubled over the year.

Table 4.
Revenue from urban telephone communications services

	Revenue, RUR mln.		Increase		Percentage in telecom sales	
	2001	2002	RUR mln.	%	2001	2002
Installation charges	581	728	147	25	6%	6%
Subscription fees (monthly billing)	1678	2162	484	29	18%	18%
Subscription fees and traffic charges (perminute billing)	270	461	191	71	3%	4%
Other urban telephone communications services	534	754	220	41	6%	6%
Total revenue from urban telephone communications services	3064	4105	1041	34	33%	34%

Rural telephone communications

Revenues from rural telephone communications (RTC) grew in 2002 by 0.2 billion rubles or by 36%. RTC accounted for 0.7 billion rubles of the last year's revenues.

Figure 9.
Revenue from rural telephone communications services (RUR mln.)

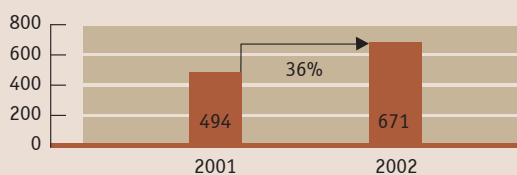
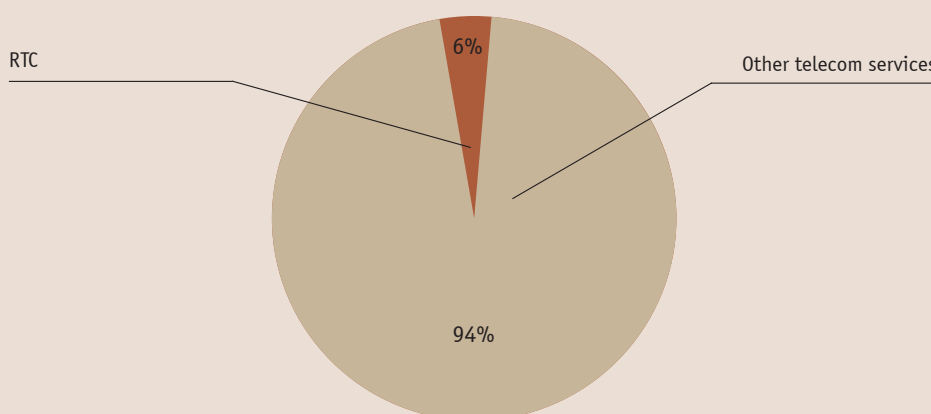


Figure 10.
Rural telephone communications share in revenue from telecom services in 2002



As in UTC the tariff factor was decisive for the revenue growth in 2002. The installation charges for residential subscribers were raised in 6 out of 11 regions. In Krasnoyarsk region it was increased by 100%, in 3 regions – by 20-33% and in 2 regions – by 5-11%. 7 regions raised installation charges for organizations by 17 to 50%. Over ten regions the subscription fees for residential customers were raised by 11 to 60%. Eight regions raised subscription fees for organizations by 4 to 38%.

Per-minute billing for rural telephone communications was used only in Altai region.

The number of RTC subscribers grew by 21 thousand and reached 642 thousand by the end of 2002.

Table 5.
Revenue from rural telephone communications services

	Revenue, RUR mln.		Increase		Percentage in telecom sales	
	2001	2002	RUR mln.	%	2001	2002
Installation charges	65	89	24	37	1%	1%
Subscription fees (monthly billing)	398	538	140	35	4%	5%
Subscription fees and traffic charges (per-minute billing)	11	15	3	31	0%	0%
Other rural telephone communications services	20	29	9	48	0%	0%
Total revenue from rural telephone communications services	494	671	177	36	5%	6%

Data transmission, Internet, intellectual network services

In 2002 the expanded promotion of promising services brought positive results. The total revenues from data transmission services (ATM, Frame Relay), digital access lines (ISDN, xDSL), dial-up Internet access and dedicated Internet lines, special e-mail systems, prepaid cards and some other services reached 0.6 billion rubles, up by 0.2 billion or 54% over the previous year.

Figure 11.
Revenue from data, Internet, IN and telematics services (RUR mln.)

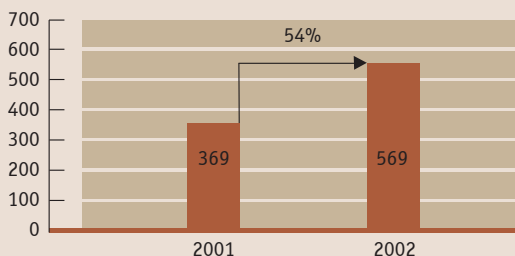
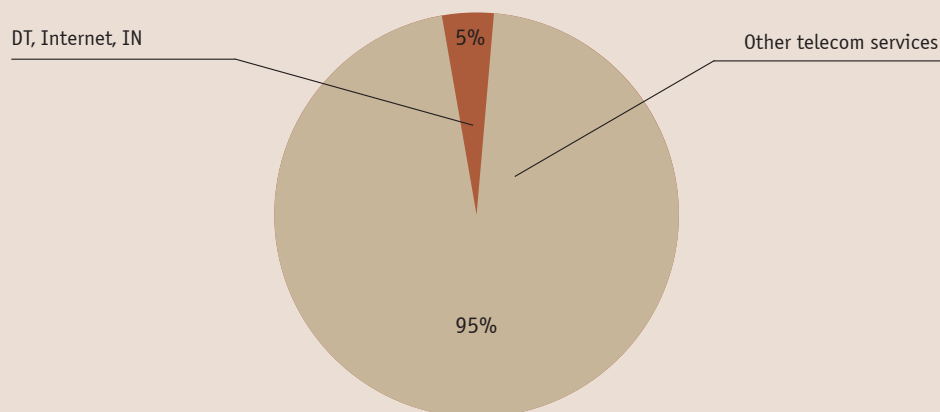


Figure 12.
Share of data, Internet, IN and telematics services in revenue from telecom services in 2002



Internet access revenues reached 320 million rubles. These revenues occupy the third place in OAO Sibirtelecom revenue structure after long-distance (domestic and international) and local (urban and rural) communications. The Internet traffic through the telephone network reached 793 million minutes, which is 79% more than in 2001. The volume of Internet data transmission increased by 85%.

Strong customer interest towards Internet fuels demand for high-speed digital access lines. The number of ISDN users grew by 500 and reached 1.7 thousand. The Company is putting a stake on state-of-the-art broadband access technology. In 2002 DSL lines were on offer almost in all regional centers of Siberia.

Widely offered are prepaid cards – the service of intellectual networks. Revenues from this group of services in 2002 grew by 65%. Prepaid cards had a huge success in Krasnoyarsk. An aggressive marketing campaign brought about a dramatic increase in sales of prepaid cards having stimulated long-distance traffic growth.

Table 6.
Revenue from data transmission, Internet, telematics and IN services

	Revenue, RUR mln.		Increase		Percentage in telecom sales	
	2001	2002	RUR mln.	%	2001	2002
Data transmission and Internet access	201	364	164	82	2.2%	3.1%
ISDN	11	23	12	106	0.1%	0.2%
Prepaid cards (IN*)	69	115	45	65	0.7%	1.0%
Other services	87	67	-21	-24	0.9%	0.6%
Total revenue from DT, Internet, IN and telematics services	369	569	200	54	4.0%	4.8%

Wireless communications

In 2002 OAO Sibirtelecom increased its revenues from wireless communications by 50 million rubles or by 31% to reach 209 million.

Figure 13.
Revenue from wireless communications services (RUR mln.)

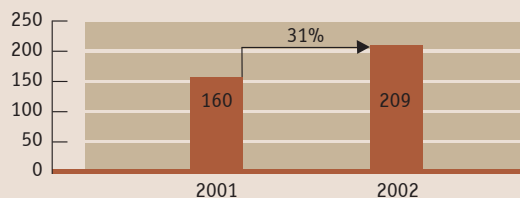
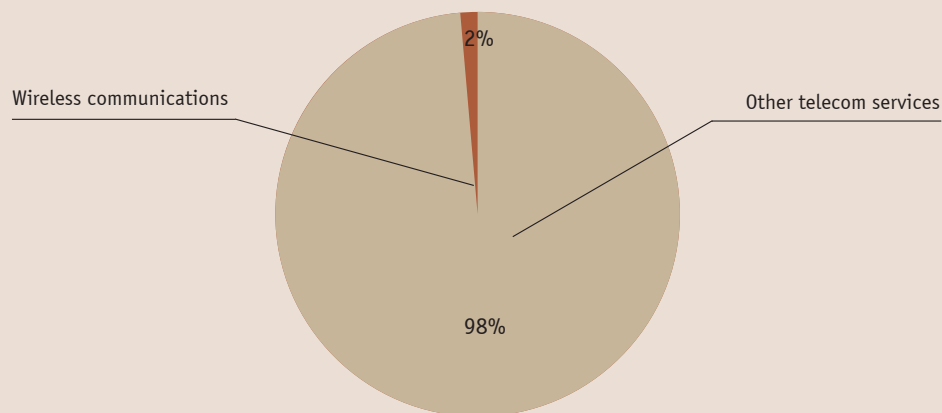


Figure 14.
Wireless communications share in revenue from telecom services in 2002



The larger share of these revenues came from GSM and NMT mobile communications. In more details this subject is discussed in chapter «Cellular Business».

In 2002 wireless access (DECT) became available for customers in Buryatia republic, Irkutsk and Tomsk regions. The volume of such services sharply increased in Kemerovo region.

The demand for paging services and traditional radio communications is gradually declining.

Table 7.
Revenue from wireless communications services

	Revenue, RUR mln.		Increase		Percentage in telecom sales	
	2001	2002	RUR mln.	%	2001	2002
Cellular communications	148	192	44	30	1.6%	1.6%
Paging	0.2	0.2	0.0	-1	0.0%	0.0%
Wireless access	0.2	7	6	3048	0.0%	0.1%
Other services	11	11	-0.2	-2	0.1%	0.1%
Total revenue from wireless communications services	160	209	50	31	1.7%	1.8%

Telegraph, TV and radio broadcasting

OAO Sibirtelecom provides other telecom services, such as telegraph, wireline broadcasting, TV and radio broadcasting and cable TV.

The telegraph communications are being gradually replaced by more advanced data and document transmissions. In 2002 the overall number of telegrams fell by 8%. It was 8% for domestic and 11% for international telegrams. The number of telex terminals considerably declined. By December 2002 their number was a little over 2 thousand. The revenue growth of 34 million rubles (19%) is fully due to raised tariffs. Similar is the state of wireline broadcasting. Raised tariffs increased revenues by 29 million rubles while the number of subscribers declined.

Figure 15.
Revenue from telegraph and broadcasting services (RUR mln.)

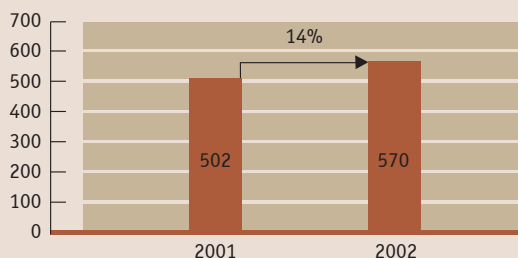
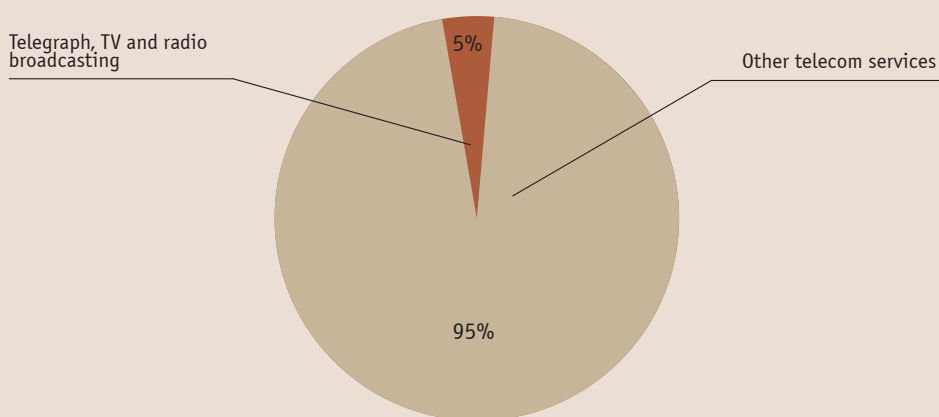


Figure 16.
Telegraph and broadcasting share in revenue from telecom services in 2002



ОАО Sibirtelecom provides TV broadcasting for Tomsk region and to a small extent provides similar services in Chita and Kemerovo regions.

Much more promising is cable TV based on modern broadband technologies. In 2002 cable TV services were offered in Irkutsk.

Table 8.
Revenue from telegraph, TV and radio broadcasting services

	Revenue, RUR mln.		Increase		Percentage in telecom sales	
	2001	2002	RUR mln.	%	2001	2002
Telegrams	171	206	36	21	2%	2%
Telex	33	33	1	2	0%	0%
Other telegraph services	64	61	-3	-4	1%	1%
Total - telegraph	267	301	34	19	3%	3%
Air TV	25	28	3	12	0%	0%
Cable TV	0	3	3		0%	0%
Total - TV	25	31	6	22	0%	0%
Air radio broadcasting	7	9	2	34	0%	0%
Wireline broadcasting	200	229	29	14	2%	2%
Other radio services	2	0	-2	-99	0%	0%
Total revenue from telegraph and broadcasting services	502	570	68	14	5%	5%

Chapter 7

Investments and technological development of networks

Our future competitiveness is closely tied to the speed of modernization of core networks and creation of technological platforms for new services. This idea is in tune with the Concept of telecommunications development in Russia as adopted by the Ministry of Communications and Informatization in 2000.

In 2002 capital investments increased by more than one and a half times and reached 2.5 billion rubles. The overwhelming majority of investments went into local telephone networks (switching equipment and local transmission systems). Along with this, we increased investment in long-distance communications, primarily SDH fiber-optical lines. As compared to hefty investments into modernization of core networks, the share of new technologies (GSM, ATM, DSL, DECT, etc.) was modest. However, actual work in this direction was noticeably stepped-up. It is necessary to note that accelerated implementation of new technologies is held back by unfinished digitalization of core networks.

Figure 17.
Capital investment (RUR mln.)

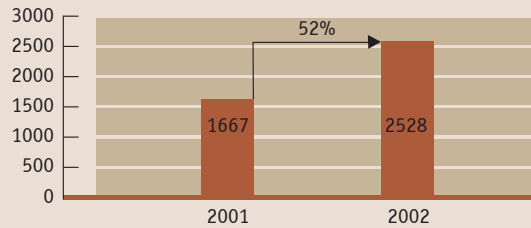
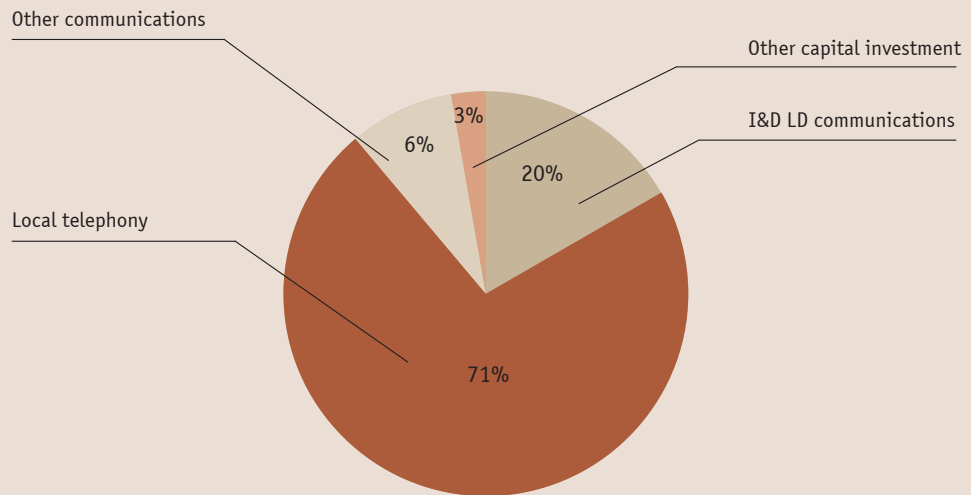


Figure 18.
Capital investment structure in 2002



In 2002 Novosibirsk region was the leader of investment activities of the Company, both in terms of capital investment volumes and in terms of investment/revenue ratio. Large amounts were invested in Tomsk and Irkutsk regions.

Figure 19.
Capital investment
by region in 2002
(RUR mln.)

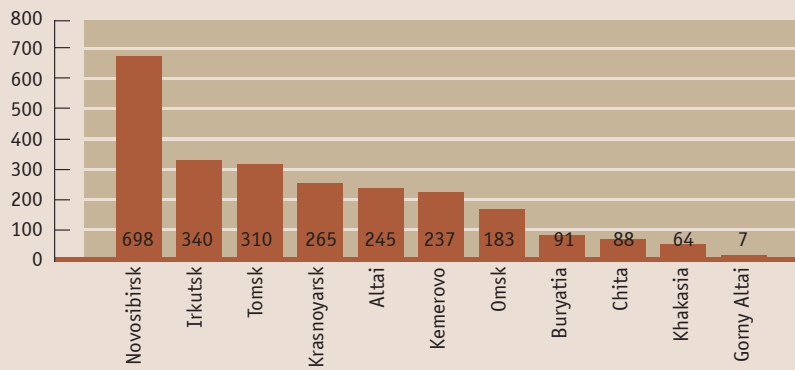
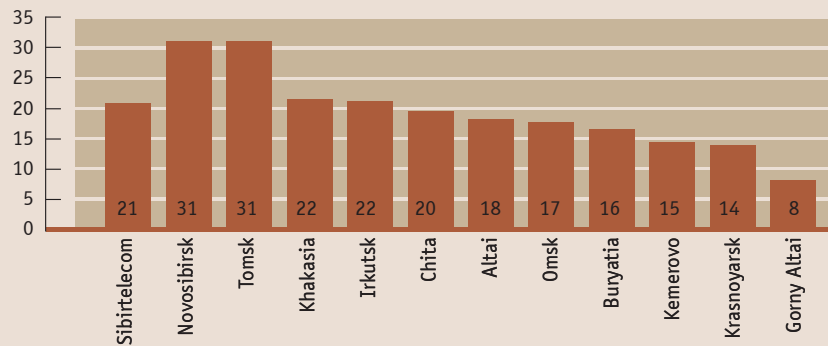


Figure 20.
Investment/Revenue
ratio by region
in 2002



In 2002 the Company accelerated replacement of its obsolete technical assets. 71 new digital exchanges were put in operation. Newly installed switching capacity was 80% higher than in 2001. Replacement of outdated switching capacities doubled (143 thousand installed lines versus 71 thousand in 2001). The net increase of installed capacity amounted to more than 200 thousand lines, which is 70% higher than in 2001.

Higher growth took place in urban areas, where demand and purchasing power exceed those in the country areas. Nonetheless, installed capacity of rural exchanges also increased.

Figure 21.
Installed switching capacity in local networks (thousand lines)

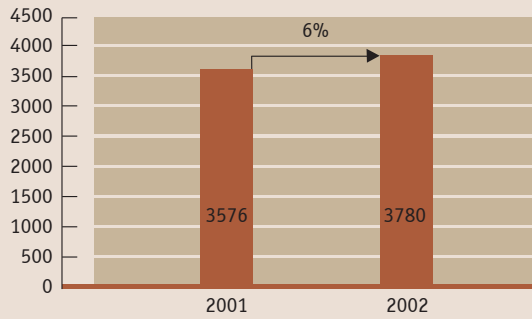


Figure 22.
Installed switching capacity in urban networks (thousand lines)

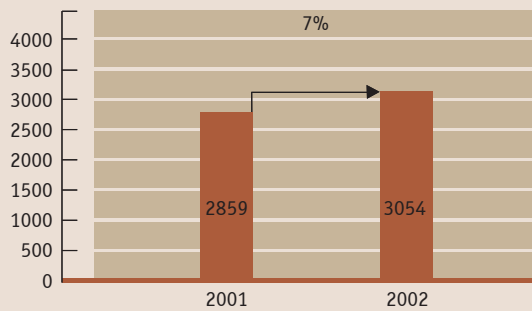
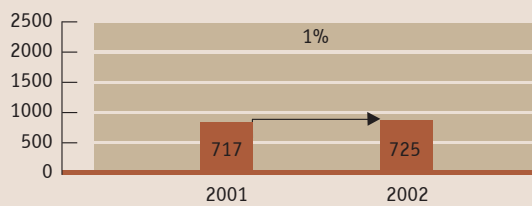


Figure 23.
Installed switching capacity in rural networks (thousand lines)



Share of digitalized switching capacity grew from 37 to 43% overall and from 45 to 51% in urban networks. Five regions (Tomsk, Novosibirsk, Irkutsk, Altai regions and Buryatia republic) passed the 50% barrier of digitalization of urban switching systems.

Figure 24.
Digitalization
of local switching
capacity

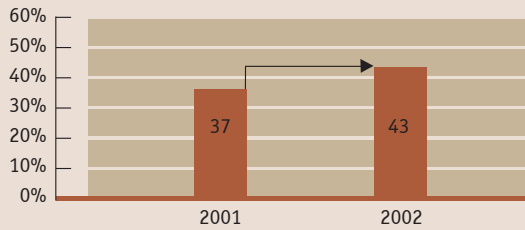


Figure 25.
Digitalization of
urban switching
capacity

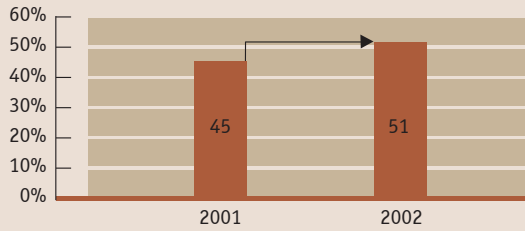


Figure 26.
Digitalization
of rural switching
capacity

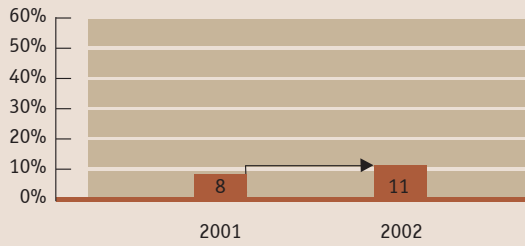


Figure 27.
Digitalization
of urban switching
capacity by region
in 2002

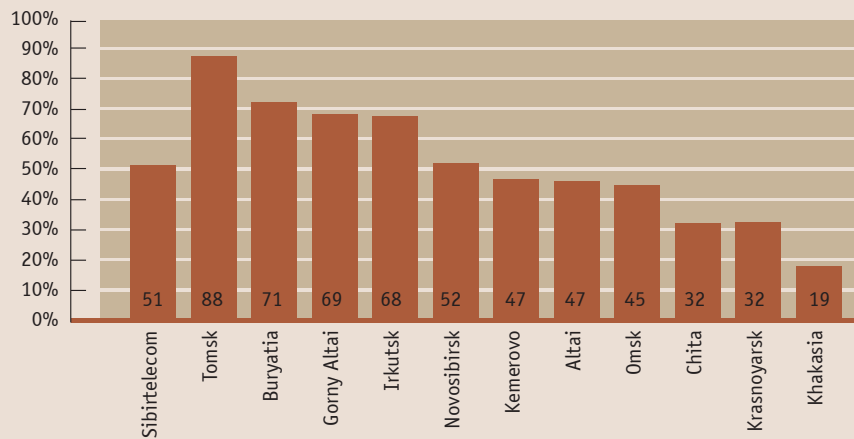
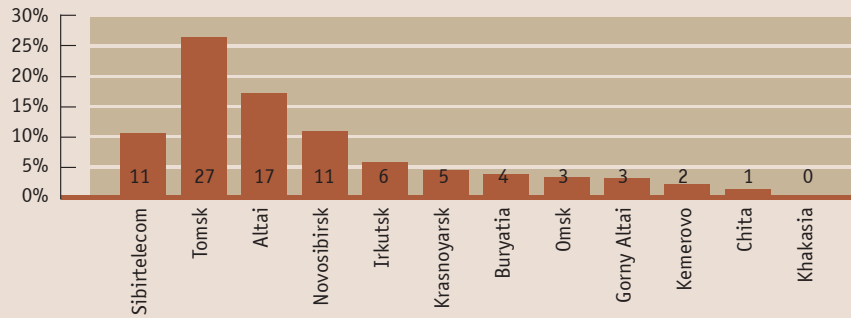


Figure 28.
Digitalization
of rural switching
capacity by region
in 2002



Overall digitalization of local transport networks is completed: in urban networks – up to 98% and 100% in rural networks. Simultaneously resolved is the task of increasing transmission capacity especially in large cities. The share of urban transport networks equipped with SDH grew over 2002 from 46 to 51%.

Figure 29.
Digitalization
of transmission
capacity in urban
networks

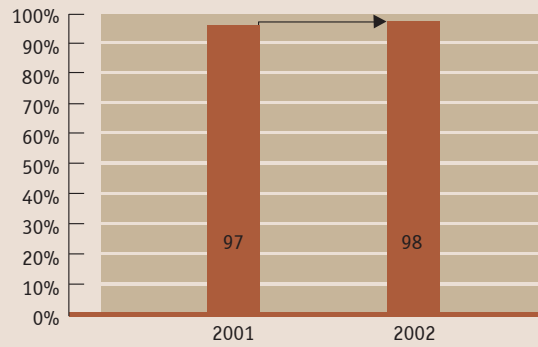


Figure 30.
SDH systems share
in urban networks

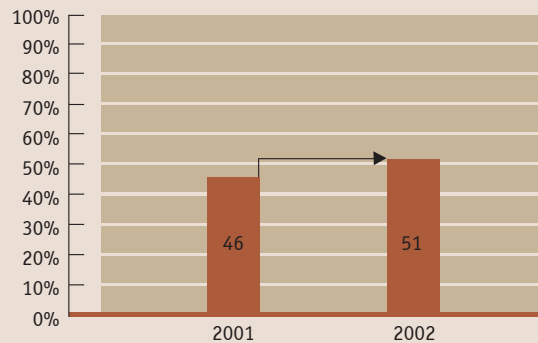
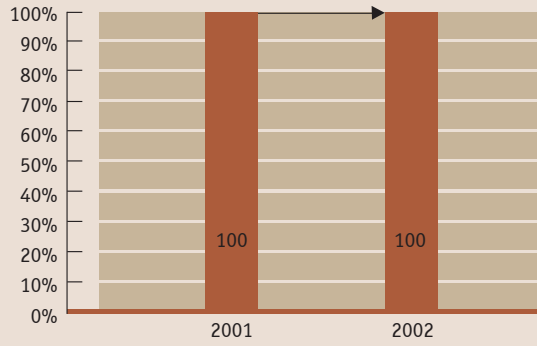


Figure 31.
Digitalization
of transmission
capacity in rural
networks



2002 was marked by serious achievements in development of intra-regional networks. 1200 kilometers of fiber-optical lines were installed, which increased their total length by 75%. The share of digital transmitting systems grew from 57 to 65%. Especially successful here were Kemerovo, Novosibirsk and Irkutsk regions.

Figure 32.
Digitalization
of transmission
capacity in intra-
regional networks

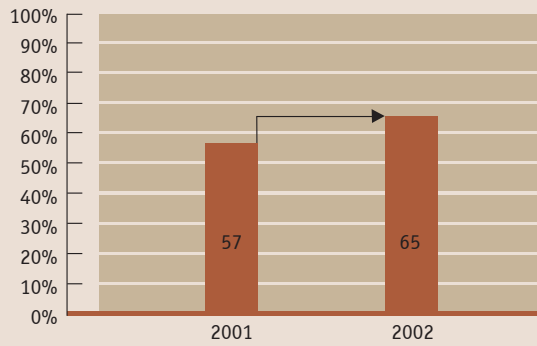


Figure 33.
SDH systems share
in intra-regional
networks

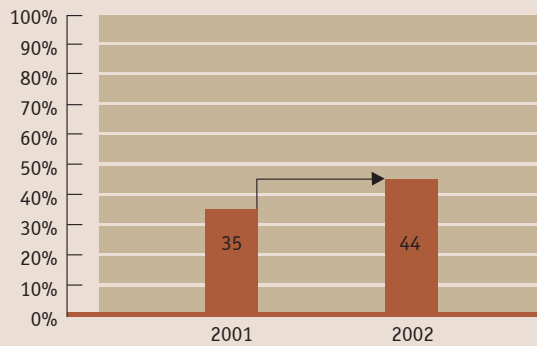


Figure 34.
Digitalization
of transmission
capacity in leased
intra-regional
networks

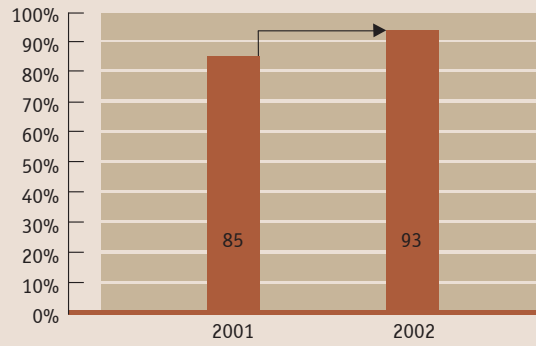


Figure 35.
Digitalization
of transmission
capacity
in intra-regional
networks by region
in 2002

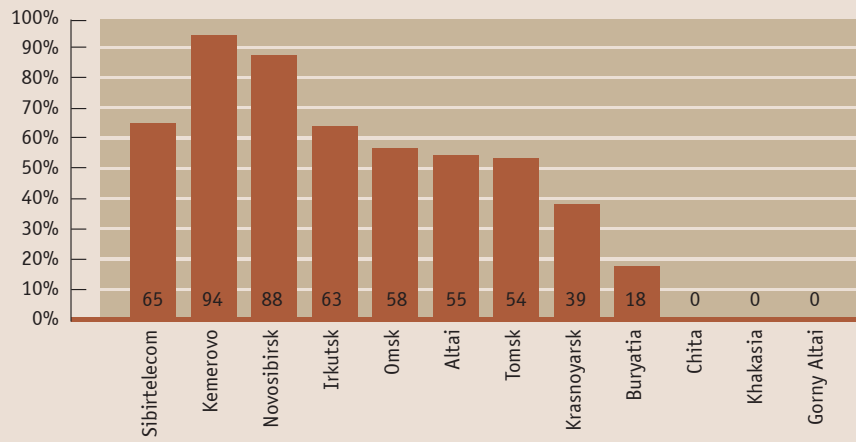
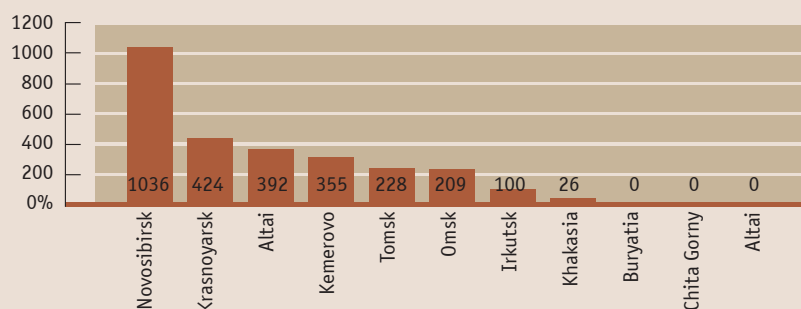


Figure 36.
Length of fiber-optic lines in intra-regional networks by region in 2002 (km)



In the reporting year we were even more persistent in creating advanced technological platforms to provide innovative services. Progress was made in creation of broadband transport networks based on ATM technology. The capacity of existing ATM network in Irkutsk was increased four-fold to 622 Mbps. The first stage of installation of such a network was completed in Novosibirsk. Another ATM backbone (622 Mbps) connected Irkutsk and Angarsk. In Kemerovo region the first-stage ATM network connected 8 cities. Data transmission networks were updated in Novosibirsk, Kemerovo, Tomsk and Irkutsk regions. DSL lines were, for the first time, introduced to customers in Novosibirsk, Irkutsk and Omsk regions.

New prepaid cards processing centers were set up. Call center services were launched in Omsk and Barnaul.

In Buryatia another boost was given to GSM mobile communications. Ulan-Ude and Omsk launched services of wireless (DECT) access.

Interactive cable television network in Irkutsk continued to be developed. A similar network was installed in Novosibirsk.

HI-TECH PROJECTS FINISHED IN 2002

Broadband networks

The capacity of ATM network in Irkutsk increased four-fold to 622 Mbps

First in Siberia ATM backbone connected Irkutsk and Angarsk (622 Mbps).

First stage of construction of ATM network completed in Novosibirsk.

First stage of construction of regional ATM network connecting 8 city nodes in Kemerovo region completed.

Broadband access lines

Introduction of over 1500 lines of ADSL and G.SHDSL in Novosibirsk, Irkutsk and Omsk regions.

City and regional data networks

Upgrading equipment of 18 district access nodes, digitalization of data transport network in Novosibirsk region.

Launch of city network Gigabit/Fast Ethernet in Tomsk.

New routers in 24 access nodes, digitalization of data transport network in Irkutsk region.

Upgrading data network in Kemerovo region.

Internet

Wide expansion of dial-up access nodes.

Launch of dedicated Internet routing platform and setup of Internet data processing center in Irkutsk.

Intellectual networks

Expansion of prepaid card processing centers in Omsk and Krasnoyarsk.

Setup of new prepaid card processing centers in Novosibirsk, Barnaul, Chita and Gorno-Altai.

Wireless access

Launch of wireless access systems in Omsk and Ulan-Ude.

GSM cellular communications

Expansion of GSM network in Ulan-Ude

Cable TV

Expansion of cable TV network in Irkutsk.

Launch of interactive cable TV network in Novosibirsk.

Chapter 8

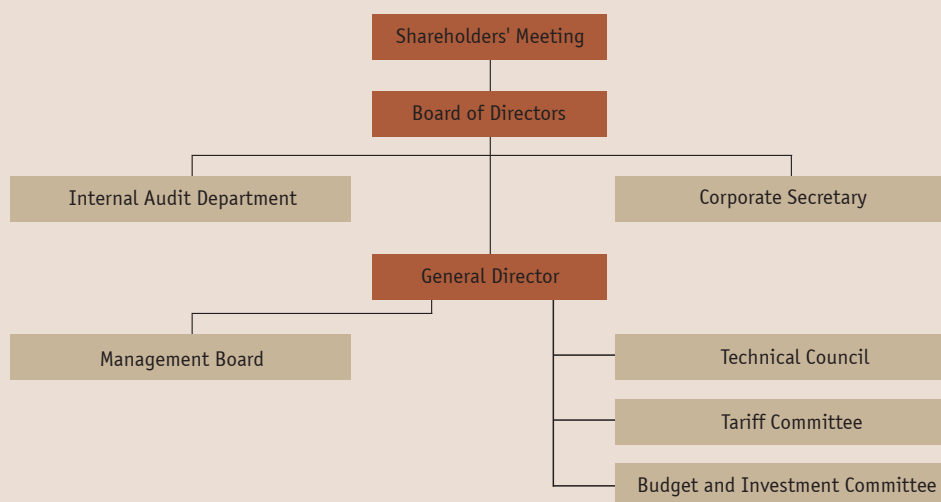
Organization and personnel

Management structures

It was decided before the merger, that organizational structure of the combined Company would be based on the territorial principle. Regional branches of OAO Sibirtelecom were set up at the licensed territories of each of the former 11 independent companies. Such a structure was deemed to suit the period of integration of the combined Company. A future business model is one of the important issues of forthcoming restructuring program.

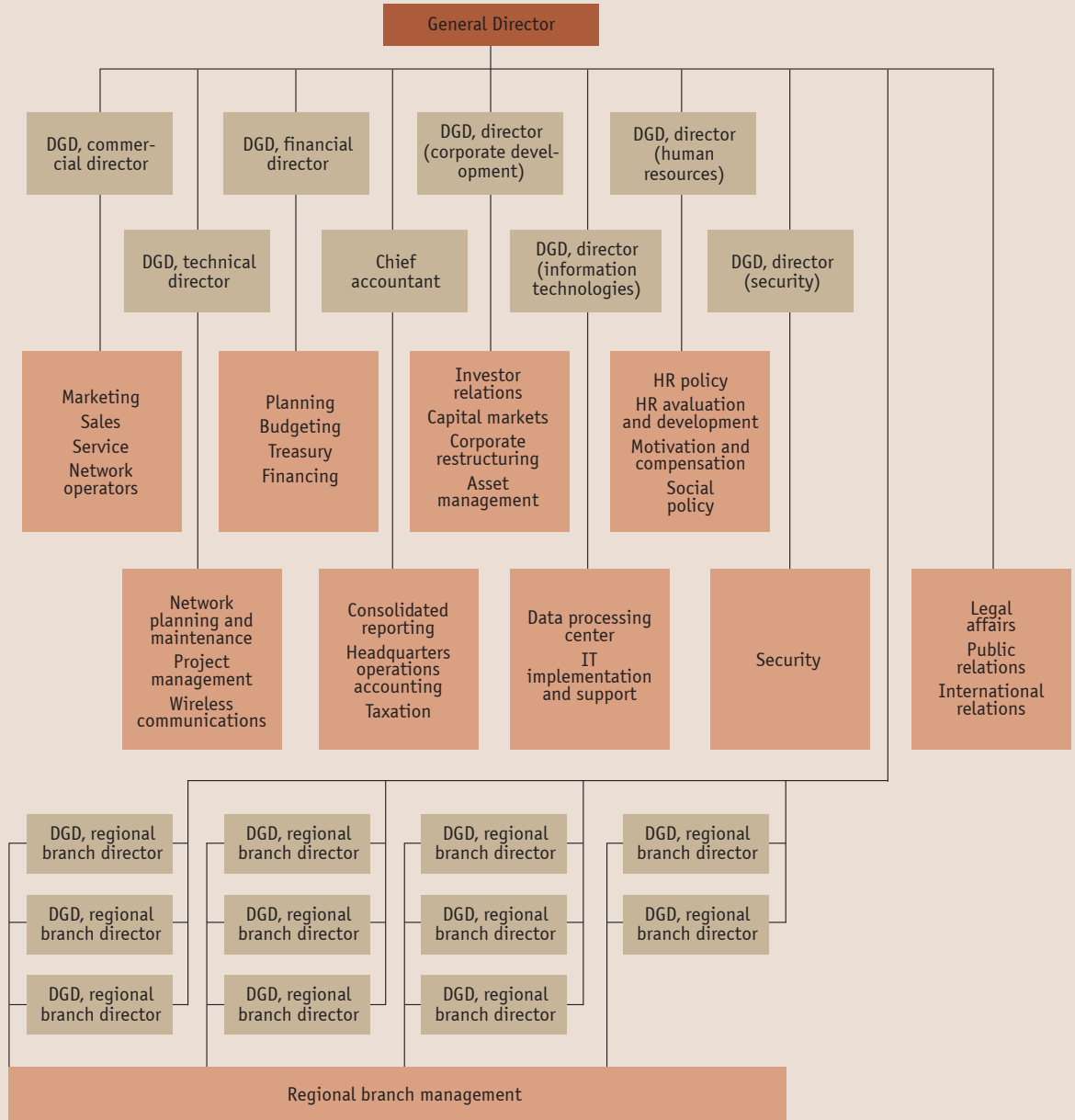
The top management structure is built in accordance with the Russian Federation law «On joint stock companies» and the Charter of the Company. It is shown in Organigram 2.

Organigram 2.
General management
structure
of OAO Sibirtelecom



In December 2002 the headquarters was formed to manage the Company and its regional branches. The structure of executive top management is shown in Organigram 3.

Organigram 3.
Senior executive management structure of OAO Sibirtelecom
Note: DGD – Deputy general director



Management systems

Implementation of new management models was one of the priorities of 2002. Recognized international experts were called up by OAO Svyazinvest to help with management and restructuring of all companies within the holding. Consulting fees were financed in a centralized way through a non-commercial partnership «Research Center for Telecommunications Development» set up by Svyazinvest regional subsidiaries in 2001. The centralized approach allows working out uniform recommendations for all interregional companies, thereby they achieved direct implementation effect and also capitalized on each other's experience.

In 2002 OAO Sibirtelecom continued a number of projects started in 2001. Major attention was paid to financial and economic issues. McKinsey & Company helped to implement methodology of activity-based costing. It was mastered an important tool for evaluation of different activities' costs and working out economically sound tariffs for telecom services.

We implemented new budgeting and investment planning systems, IAS reporting and modernized systems for collecting, processing and presenting financial and economic information. Ernst & Young supported this project. The 2003 budget was developed in accordance with newly adopted methods.

In terms of accounting the former 11 companies adopted a single accounting policy, plan of accounts and other accounting tools.

Key staff of financial and economic departments were tested and assessed by new original methods of RHR International Ecopsy consultants.

Adopting new management systems we revealed a serious problem of insufficiency of our information systems. Partial automation, inadequacy and incompatibility of information technologies currently employed did not allow achieving potential effects. This explains our drive to solve this problem in 2003 by implementing an adequate information system.

Although OAO Sibirtelecom was not a pilot company in other important consultancy projects, we are well aware of their results and keep them in mind while planning practical actions. These include implementation of new approaches to marketing strategy (with guidance of The Boston Consulting Group) and gradual corporate restructuring following the merger (assisted by Accenture).

Personnel

Results of OAO Sibirtelecom to a great extent depend on our personnel – their professionalism, loyalty and commitment to achieving most ambitious targets. There is much to do in human resource management in the combined Company. First of all we need to implement a new corporate culture, which is customer-centered and entrepreneurial. New incentive systems should be introduced as well as customer relation skills, new telecommunications and informational technologies and new management models.

Simultaneously we are striving to raise labor productivity, which cannot be done without rationalizing the number of employees and staff structure.

In 2002 the staff of the Company was cut by 2300. The average number of employees in 2002 was 49600, which is 4% less than for the previous year. Staff reduction was conducted in a socially acceptable way. Thus, retiring employees were offered additional non-government pension schemes.

In the reported period the average salary was raised by 36%. This measure was caused by objective labor market conditions and the need to retain most valuable employees.

Productivity grew considerably. Thus, a number of lines per employee increased from 62 to 68 or by 10% and revenues per employee grew from 185 thousand rubles to 246 thousand or by 33%.

Figure 37.
Number
of employees
(thousands)



Figure 38.
Revenue per
employee
(RUR thousands)

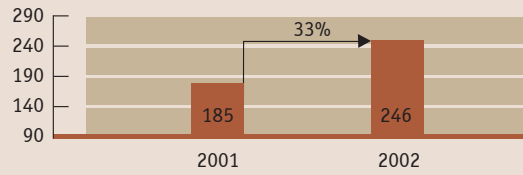
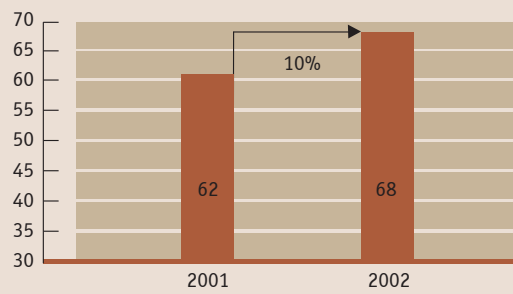


Figure 39.
Lines per
employee



At the same time large discrepancies in productivity between regions demonstrate high potential for its growth. Thus, in 2002 the difference between most and less productive regions in number of lines and revenues per employee was over two times.

Figure 40.
Revenue per employee
by region in 2002
(RUR thousands)

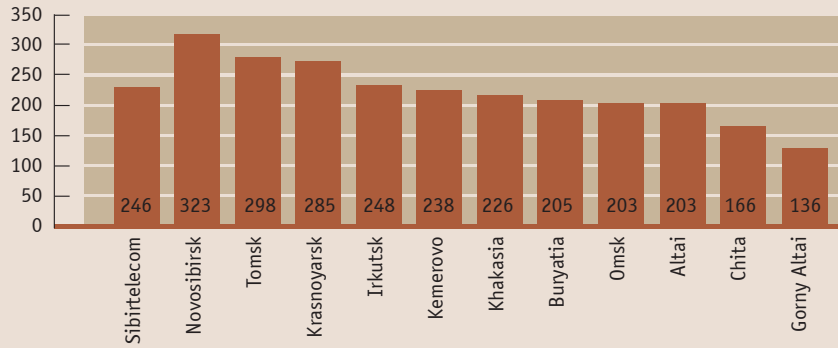
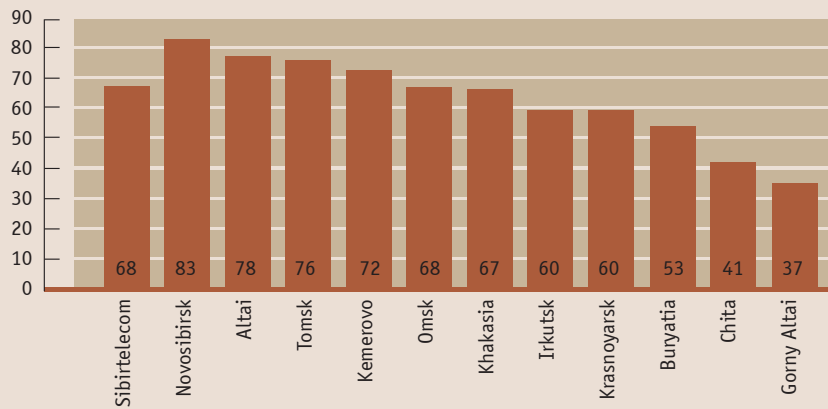


Figure 41.
Lines per employee
by region in 2002
(RUR thousands)



The staff of OAO Sibirtelecom is relatively young. The average age is 40 years. 47% have higher and secondary professional education. We actively promote professional training of our staff. Five thousand employees went through additional training at six educational centers and other establishments. Out of this number three thousand managers and specialists attended courses in marketing, budgeting, IAS reporting, informational technologies, investor relations and corporate management. Technical staff continued to be trained in the implementation of new telecommunications technologies.

Chapter 9

Financial review

Revenues, cost and expenses, income

Revenues of OAO Sibirtelecom in 2002 reached 12.2 billion rubles having grown by 2.6 billion or 27%. Revenues from telecommunications services were up by 28% and their share in the total revenues – from 97 to 98%. Revenues from non-core operations increased by 1%.

Cost and expenses rose by 1.9 billion rubles or by 25%.

Expenses on leased network infrastructure and interconnection services of other operators grew by 716 million rubles or by 60%. Their share in revenues rose from 12.4% in 2001 to 15.6% in 2002. On the one hand, this was caused by traffic growth transmitted through other networks (domestic and international long distance traffic grew by 19%, Internet traffic – by 79%). On the other hand, OAO Rostelecom raised its tariffs.

The amount of **depreciation and amortization** went up by 77 million rubles or by 11%, which corresponds to increased value of assets including those, which were depreciated on an accelerated basis.

Staff compensation and social tax grew by 944 million rubles or 29%. Their share in revenues increased insignificantly over the year from 34.1% to 34.5%. The main growth factor was the 36% rise of average compensation level.

Material and repair costs grew by 235 million rubles or by 35%. The increase was principally caused by larger volumes of work and higher contractors' fees (characteristic for the Siberian repair and construction market in 2002).

To make up for the inevitable expense growth in the above-mentioned items a strict control was introduced over those items, which are less dependent on external factors.

Expenses on electric power, fuel, utilities, and space rent payments grew only by 77 million rubles or by 14%.

Taxes included in costs and payments to road funds were reduced by 12 million rubles or by 7%. Favorable taxation changes made this reduction possible.

Other expenses were reduced by 172 million rubles

or by 17%.

Correspondingly impressive was a growth of **operating income**. In 2002 this reached 2.8 billion rubles having risen by 747 million rubles or by 37%. The operating income margin grew from 21.2 to 22.7%.

In contrast to positive operational results there was a fall in income before tax and in net income. This negative event was caused by temporary factors connected with the merger as well as legislation changes concerning income tax.

In 2002 **income before tax** fell by 503 million rubles or by 35%. The principal factor for reduction is an unprecedented large provision for doubtful debts. The new edition of the Tax Code of Russian Federation insists on creating an allowance for accounts receivable overdue more than three months. In 2001 only the former OAO Elektrosvyaz of Novosibirsk region and not in the full amount had create such a provision. In 2002 the Tax Code required a provision for bad debts in a full amount.

To better understand the nature of doubtful debts one should analyze the structure of allowances. Out of the total provision of 761 million rubles as of December 31, 2002, 72% relate to state organizations. Both federal and local authorities have poor financial discipline concerning their obligations to compensate losses of telecommunications operators from providing services to some categories of residential customers at reduced tariffs. Besides, budget organizations, especially federal, are not very disciplined payers themselves.

Nonetheless, some of the overdue receivables are not absolutely bad debts. Thus, in 2002 doubtful debts with a provision of 128 million rubles were repaid.

Beside the provision for doubtful accounts, the amount of income was affected by large expenses of reorganization including valuation services, payments to the non-commercial partnership «Research Center for Telecommunications Development» for centralized research and consultancy. In 2002 increased debt burden doubled interest payments while property tax and some other payments also increased. Although the figure of **income tax** went down as

compared to 2001, it's decrease was not in line with income before tax. This was caused by changes in the tax legislation. In 2002 the tax rate was reduced from 35 to 24%. Simultaneously revoked were tax benefits including such an important one as that for capital investments. The size of income tax was particularly affected by a new method of its calculation. Previously, taxable income was determined on «cash» basis, but in 2002 this was calculated on «accrual» basis. This transition led to a one-off taxable income growth.

Thus, 35% lower income before tax reduced the amount of tax only by 13%. The resulting **net income** fell disproportionately by 439 million rubles or by 48%. In 2002 it amounted to just 474 million rubles.

Financing investments and working capital

2002 was marked by unprecedented investment activity of OAO Sibirtelecom. Investment in fixed assets rose by 861 million rubles or by 52% to reach 2528 million rubles.

Internal sources of funding rose insignificantly. The larger part of investment growth came from additionally raised debt capital – bank loans, supplier credit and finance leases. Their share in financing rose from 33 to 52%.

Not all of the companies merged in 2002 managed to achieve an optimum debt structure. Long-term debt in the reported period decreased by 154 million rubles. Meanwhile, short-term liabilities to suppliers and contractors rose by 414 million rubles. To cover a temporary shortage large bank loans maturing in less than a year were raised. Short-term debt rose by 741 million rubles.

Significant increase of short-term liabilities through investment activity adversely affected the size of the working capital of OAO Sibirtelecom. As of December 31, 2002, current liabilities exceeded current assets by 918 million rubles.

The size of working capital was also greatly affected by the above-mentioned provision for bad debt. As a result the accounts receivable dropped by 415

million rubles.

It was the large allowances for doubtful debt and a sharp rise of short-term bank loans and equipment suppliers' credit that caused the negative working capital by the year end.

The management of OAO Sibirtelecom believes this situation to be temporary and is taking necessary steps to reverse it.

First of all, in 2003 there will be restructuring of investment financing. This includes issue of three-year bonds, restructuring of Vneshekonombank loan and changing payment terms of equipment supplies.

Secondly, creating provision for doubtful debt led to a better quality of accounts receivable. Negotiations with state authorities should lead to better payment discipline on behalf of the budget towards OAO Sibirtelecom.

The management expects that the above-mentioned measures will restore the amount of required working capital.

This opinion is supported by the fact that Fitch Ratings on May 14, 2003 raised the rating of unsecured long-term liabilities of OAO Sibirtelecom from B to B+. The rating of short-term liabilities remained the same (B). According to Fitch Ratings, the equity to debt ratio is at a low and safe level; consequently Fitch Ratings supports a positive outlook.

Chapter 10

Cellular business

OАО Sibirtelecom is developing its cellular business through internal divisions of the parent company and through its subsidiaries or associates.

The divisions of ОАО Sibirtelecom provide GSM 900 services in Buryatia republic and NMT 450 services in Khakasia republic and Tomsk region. In 2002 a division of the parent company was temporarily providing GSM 900 services in Kemerovo region in connection with reorganization of the mobile business of its subsidiaries operational in this region. In 2002 the number of GSM subscribers of the divisions of ОАО Sibirtelecom grew by 1.9 times and approached 17 thousand. Over the same period the number of NMT subscribers of the divisions of ОАО Sibirtelecom grew by 28% and reached 9 thousand.

As of December 31, 2002 ОАО Sibirtelecom owned 51% of ordinary shares of two leading cellular operators of East Siberia – ZAO Eniseytelecom (GSM 900/1800 and NMT 450 license in Krasnoyarsk region) and ZAO Baikalwestcom (GSM 900/1800 and NMT 450 license in Irkutsk region). Both companies were cellular operators # 1 in their licensed regions in 2002. Their networks covered cities of Krasnoyarsk and Irkutsk, other large industrial centers (such as Norilsk), main airports, highways, recreational areas around the lake Baikal. Additionally ZAO Eniseytelecom owns 65% of the share capital of ООО Sayantelecom – GSM operator #1 in Khakasia republic. In 2002 combined number of subscribers of ZAO Eniseytelecom and ZAO Baikalwestcom (without subscribers of ООО Sayantelecom) increased by 2.2 times and exceeded 143 thousand. In March 2003 ОАО Sibirtelecom

completed the purchase deal for 49% of shares of ZAO Eniseytelecom and ZAO Baikalwestcom and now owns 100% of both.

ОАО Sibirtelecom is also a 100% owner of ZAO Cellular telephone of Kuzbass GSM with GSM 900 license on the territory of Kemerovo region and owns 55% of shares of ZAO South Siberian cellular svyaz with NMT 450 license on the territory of Altai region.

In 2002 ОАО Sibirtelecom was a minority shareholder of four cellular operators of GSM standard with leading positions in their respective licensed regions. These shareholdings were:

- 30% of ZAO Siberian Cellular Systems-900 (a subsidiary of ОАО Mobile TeleSystems, #1 GSM operator in Novosibirsk region and Altai republic);
- 7.5% of ZAO Mobile Communications Systems (a subsidiary of ОАО Mobile TeleSystems, #1 GSM operator in Omsk region);
- 10% of ZAO Siberian cellular communications (a subsidiary of Tele2, #2 GSM operator in Omsk region);
- 6.3% of ZAO Sibintertelecom (#1 GSM operator in Chita region).

Thus, in 2002 the total number of mobile subscribers of ОАО Sibirtelecom inclusive of other company's subscribers in proportion to ОАО Sibirtelecom's share in their share capital rose from 96 thousand to 205 thousand.

Chapter 11

Shares and shareholders

As of December 31, 2002 the share capital of OAO Sibirtelecom equaled 2 387 973 276 rubles 45 kopecks made up of 15 919 821 843 shares outstanding with par value of 15 kopecks (RUR 0.15), including 12 011 401 829 ordinary shares and 3 908 420 014 preference shares of type «A».

Table 9.
Ownership
structure

	Number of shares	Percentage of ownership
Ordinary shares	12 011 401 829	100.0%
including:		
OAO Svyazinvest	6 086 601 672	50.7%
ZAO Depository and Clearing Company	1 757 191 391	14.6%
ZAO ING Bank (Eurasia)	817 752 314	6.8%
Other institutional investors	2 202 296 023	18.3%
Employees of OAO Sibirtelecom	143 600 157	1.2%
Other private investors	1 003 960 272	8.4%
Preference shares	3 908 420 014	100.0%
including:		
OAO Svyazinvest	0	
ZAO Depository and Clearing Company	786 471 472	20.1%
ZAO ING Bank (Eurasia)	628 481 180	16.1%
Other institutional investors	1 205 365 966	30.8%
Employees of OAO Sibirtelecom	284 581 100	7.3%
Other private investors	1 003 520 296	25.7%
Ordinary and preference shares	15 919 821 843	100.0%
including:		
OAO Svyazinvest	6 086 601 672	38.2%
ZAO Depository and Clearing Company	2 543 662 863	16.0%
ZAO ING Bank (Eurasia)	1 446 233 494	9.1%
Other institutional investors	3 407 661 989	21.4%
Employees of OAO Sibirtelecom	428 181 257	2.7%
Other private investors	2 007 480 568	12.6%

On April 26, 2002, the Board of directors of OAO Sibirtelecom took a decision to issue additional ordinary shares in the number of 9 334 815 322 and preference shares (type A) in the number of 3 016 234 561 by way of conversion of shares of the merged companies.

On October 25, 2002, the Federal Commission on the Securities Market of Russia officially registered securities to be issued through conversion of securities of telecom operators of Siberia merging with OAO Sibirtelecom.

On November 30, 2002, conversion of shares of telecom operators of Siberia merging with Sibirtelecom was completed.

On December 27, 2002, the Federal Commission on Securities Market of Russia registered security issue reports about conversion of securities of telecom operators of Siberia merging with OAO Sibirtelecom.

On March 12, 2002 shares of OAO Sibirtelecom were included in the Second level quotation list «A» of the Russian Trading System.

On October 30, 2001 the Federal Commission on the Securities Market of Russia gave permission to OAO Sibirtelecom for circulation of ordinary non-documentary bearer shares outside of the Russian Federation issued in accordance with a foreign law and signifying rights on ordinary non-documentary bearer shares of the Company. Based on this permission the Company issued American depositary receipts (ADR) of the first level in proportion of 1 ADS to 800 ordinary shares of OAO Sibirtelecom. The depositary bank is JP Morgan Chase Bank.

In December 2002 OAO Sibirtelecom applied to the Federal Commission on Securities Market of Russia for permission to circulate outside the Russian Federation ten additional share issues (issued through conversion of securities of ten telecom operators of Siberia merging with OAO Sibirtelecom) in the form of American depositary receipts. Such permission was received on January 24, 2003.

Over 2002 the capitalization of OAO Sibirtelecom calculated on the basis of the market value of ordinary shares of OAO Sibirtelecom and merged companies rose by 67% and exceeded US\$301 million.

Chapter 12

Independent Auditor's Report on RAS Financial Statements

To shareholders of ОАО Sibirtelecom

1. We have executed the audit of the accounting report of ОАО Sibirtelecom, for the period from January 1, 2002, to December 31, 2002.
2. The accounting report of ОАО Sibirtelecom, consists of the balance sheet designated with «At the end of the accounting period taking into consideration the figures of the associated organizations», the income statement designated with «For the accounting period», the statement of shareholders' equity, the statement of cash flows, the appendix to the balance sheet and the explanatory note designated with «At the end of the accounting period taking into consideration the figures of the associated organizations» and «For the accounting period». The management of ОАО Sibirtelecom is held responsible for the preparation and provision of the accounting report. Our duty is to express the opinion of the authenticity of the given report in all important respects and of the compliance of the accounting with the legislation of the Russian Federation on the basis of the executed audit.
3. The audit of ОАО Sibirtelecom, as on December 31, 2001, was executed by a different auditing company the opinion of which of the authenticity of the accounting report of ОАО Sibirtelecom, for the year ending on December 31, 2001 was expressed in the conditionally positive auditor's conclusion from March 29, 2002. In its conditionally positive conclusion, this auditing company pointed out the insufficiency of the created provision for the doubtful accounts receivable for the amount of 89,008,000.00 rubles as on December 31, 2002.
4. We executed the audit in accordance with the Federal Law «Of auditing activities» and the approved federal rules (standards) of auditing activities, the Rules (Standards) of auditing activities approved by the Auditing Committee of the President of the Russian Federation.
5. The audit was planned and executed in such a way so that reasonable confidence could be gained that the accounting report designated with «At the end of the accounting period taking into consideration the figures of the associated organizations» and «For the accounting period» does not contain any considerable distortions. The audit was executed on the sample basis and included the examination on the testing basis of the proof confirming the figures and the information on the financial and economic activity in the given accounting report, the assessment of the principles and methods of accounting, the rules of preparation of the given accounting report and the significant estimated figures received by the management of the audited person, as well as the assessment of the general presentation of the given accounting report. We suppose that the executed audit presents good cause to express our opinion of the authenticity in all important respects of the mentioned accounting report and the compliance of the accounting with the legislation of the Russian Federation.
6. In our opinion, in 2002, the order of accounting in respect to the preparation of the accounting report of ОАО Sibirtelecom, designated with «At the end of the accounting period taking into consideration the figures of the associated organizations» and «For the accounting period» met the requirements of the

Federal Law «Of accounting» № 129-ФЗ from November 21, 1996, and the above mentioned accounting report, prepared in accordance with the same law, in all important respects authentically shows the financial state of OAO Sibirtelecom as of December 31, 2002 and the results of its financial and economic activity for the period from January 1, 2002, to December 31, 2002.

7. Without including clauses into our conclusion we point out Appendix 4 «Analysis and assessment of the balance structure» to the financial report where we described the excess of 917,765 rubles of the current liabilities of the Company over its working assets as on December 31, 2002, as well as the plans of the management regarding this working capital deficit.

8. As pointed out in non-audited section 6 «Comparableness of the figures of the accounting report» of the explanatory note, OAO Sibirtelecom, was reorganized on November 30, 2002, by means of affiliating several

telecommunication companies of the Siberian Federal District. We did not execute the audit of the comparative accounting report or of some of its elements designated with « the beginning of the accounting period taking into consideration the figures of the associated organizations» and «For the same period of the previous year taking into consideration the associated organizations», as well as «For the accounting period taking into consideration the associated organizations», which were included into the attached accounting report for the purposes of providing the comparable financial information only.

9. The attached financial report is not aimed to present the financial state and the results of the performance in accordance with principles and methods of accounting used in countries and other political divisions outside Russia. Accordingly, the attached financial report is not meant for persons not acquainted with the Russian principles, procedures and methods of accounting.

April 25, 2003

Partner
Robert J. Ukright

Auditor
Mikhail Sergeevich Khachaturian

Qualification certificate of the general
audit № 035169

Chapter 13

Financial statements prepared in accordance with Russian Accounting Standards

Balance Sheet

1 OKUD
Form,
RUR
thousands

	Line	As of January 1, 2002	As of December 31, 2002
1. NON-CURRENT ASSETS			
Intangible assets	110	831	720
Fixed assets (Note 1)	120	8 205 234	9 878 362
Construction in progress (Note 2)	130	808 429	806 416
Long-term financial assets (Note 3)	140	95 266	86 002
Total non-current assets	190	9 109 760	10 771 500
2. CURRENT ASSETS			
Inventory including:	210	468 408	551 495
Raw materials, supplies and other similar assets (Note 4)	211	341 917	427 425
Animals	212	28	28
Work in progress (distribution costs)	213	598	557
Finished goods and goods for resale	214	41 465	40 411
Prepaid expenses	216	84 400	83 074
Value added tax receivables	220	204 937	476 544
Long-term accounts receivable including:	230	54 232	54 151
Trade accounts receivable	231	16 101	7 441
Advances paid	234	80	0
Other receivables (Note 5)	235	38 051	46 710
Short-term accounts receivable Including:	240	1 968 084	1 774 597
Trade accounts receivable (Note 6)	241	1 385 130	970 424
Promissory notes	242	10 918	1 056
Related party receivables	243	1 074	0
Advances paid	245	189 947	402 032
Other receivables (Note 7)	246	381 015	401 085
Short-term financial assets (Note 8)	250	27 813	38 434
Cash and cash equivalents (Note 9)	260	223 955	401 099
Total current assets	290	2 947 429	3 296 320
TOTAL ASSETS	300	12 057 189	14 067 820

Balance Sheet

1 OKUD
Form,
RUR thou-
sands

	Line	As of January 1, 2002	As of December 31, 2002
3. CAPITAL AND RESERVES			
Share capital (Note 10)	410	2 387 973	2 387 973
Additional paid in capital (Note 11)	420	2 234 257	2 234 145
Reserve capital (Note 13)	430	49 968	62 438
Accumulated retained earnings	460	3 918 761	3 768 527
Retained earnings for the reporting period (Note 12)	470	X	473 778
Total capital and reserves	490	8 590 959	8 926 861
4. LONG-TERM LIABILITIES			
Loans and other borrowings including:	510	365 997	457 218
Long-term bank loans	511	308 228	400 410
Other long-term borrowings	512	57 769	56 808
Other non-current liabilities	520	714 877	469 656
Total long-term liabilities (Note 15)	590	1 080 874	926 874
6. SHORT-TERM LIABILITIES			
Loans and other borrowings (Note 16) including:	610	365 619	1 106 154
Short-term bank loans	611	323 524	938 052
Other short-term borrowings	612	42 095	168 102
Accounts payable: including:	620	1 839 139	2 892 331
Trade accounts payable (Note 17)	621	717 174	1 130 746
Promissory notes	622	47 261	87 928
Salaries payable	624	133 151	136 053
Social funds contributions payable (Note 18)	625	72 725	79 159
Taxes payable (Note 19)	626	188 680	321 670
Advances received	627	290 123	401 518
Other payables (Note 20)	628	390 025	735 257
Dividends payable	630	78 483	104 466
Deferred income	640	77 115	111 134
Future expenses and payments reserves	620	25 000	X
Total current liabilities	690	2 385 356	4 214 085
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	700	12 057 189	14 067 820

2 OKUD
Form,
RUR thou-
sands

Statement of Operations

	Line	2001	2002
1. ORDINARY ACTIVITIES' REVENUES AND EXPENSES			
Revenues (Note 21)	010	9 599 771	12 210 796
from sales of telecom services	011	9 305 446	11 912 829
from non-core activities		294 325	297 967
Cost and expenses (Note 22)	020	7 568 765	9 432 975
related to sales of telecom services	021	7 317 471	9 160 667
related to non-core activities		251 294	272 308
Operating income (loss)	050	2 031 006	2 777 821
from sales of telecom services		1 987 975	2 752 162
from non-core activity		43 031	25 659
2. OTHER OPERATING REVENUES AND EXPENSES			
Interest receivable	060	13 434	6 032
Interest payable	070	102 144	188 071
Revenue from participation in other organizations	080	13 743	6 056
Other operating revenues (Note 23)	090	206 470	212 169
Other operating expenses (Note 24)	100	376 601	1 337 506
3. NON-SALES REVENUES AND EXPENSES			
Non-sales revenues (Note 25)	120	148 849	273 603
Non-sales expenses (Note 26)	130	515 811	833 893
Income (loss) before tax	140	1 418 946	916 211
Income tax and other similar compulsory payments (Note 27)	150	507 344	442 177
Income (loss) from operating activity	160	911 602	474 034
4. EXTRAORDINARY REVENUES AND EXPENSES			
Extraordinary revenues	170	1 151	287
Extraordinary expenses	180	378	543
5. NET (RETAINED) INCOME	190	912 375	473 778

Chapter 14

Summary of accounting policies (Russian Accounting Standards)

1. The legal basis of accounting policy

The Company maintains its accounting records and prepares its statutory accounting reports in accordance with the Regulations on Accounting and Reporting in the Russian Federation and current accounting practice.

2. Intangible assets

Intangible assets are treated in accordance with PBU 14/2000, approved by the order of the Ministry of Finance of the Russian Federation # 91n from October 16, 2000. Intangible assets are capitalized at historical cost. Amortization of intangible assets is done monthly on a straight-line basis. The amortization rates are calculated based on the historical cost of intangible assets and the period of their productive usage.

3. Fixed assets

Fixed assets are recognized in accordance with PBU 6/01, approved by the order of the Ministry of Finance of the Russian Federation # 26n from October 16, 2000. Fixed assets include assets that are productively used for more than 12 months. Fixed assets are capitalized at historical cost. Their book value is regularly reviewed.

The Company accounts reflect the historical (or replacement) cost of fixed assets less accumulated depreciation. Depreciation is calculated monthly on the historical (or replacement) cost on a straight-line basis. Depreciation rates depend on the length of the estimated economic useful lives of each class of fixed assets. Fixed assets worth less than 10 000 rubles are depreciated 100% and written off to production costs at the start of production process.

For leased fixed assets an accelerated depreciation ratio is used as determined by the terms of the lease agreement. In 2002 this ratio was 3.

4. Inventory

Inventory (raw materials, products) are recorded at their actual costs of purchase or production. Inventories (excluding precious metals) are priced on an average cost basis.

5. Translation of assets and liabilities nominated in foreign currency

Cash on hand or in the Company's bank accounts, accounts receivable, short-term investments, long-term and short-term liabilities, funding from the State budget or foreign sources, as part of technical assistance to the Russian Federation in accordance with concluded agreements, nominated in foreign currency are translated into rubles on the date of transaction and on the date of preparing financial accounts.

6. Provision for doubtful accounts

Allowances for doubtful accounts are set up, on the base of stocktaking, separately for each debt, depending on creditworthiness of debtor and probability of debt repayment. The provision for doubtful accounts is provided in accordance with the accounting legislation and Chapter 25 of the Tax Code of the Russian Federation, which came into force on January 1, 2002. For the accounting purposes, provision for doubtful accounts is not created if debt is overdue less than 90 days. If the debt is overdue more than 90 days, it is written off in the full amount.

For taxation purposes allowances for doubtful debt are set up in accordance with tax legislation.

Trade accounts receivable are recorded net of allowances for doubtful debt.

7. Loans and borrowings

Long-term loans are transferred to short-term loans once the repayment of the principal comes up in 365 days according to the terms of loan agreement.

Additional expenses connected with loans and borrowings are written off in the accounting period in which they were incurred.

8. Deferred expenses

Deferred expenses are expenses incurred in the current accounting period but which cannot be included in the cost of goods and services of the

current period. Deferred expenses have to be gradually deducted out of corresponding sources over the period to which they are related.

9. Revenues

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

Revenues are recognized on the accrual basis, that is once a service is provided, these revenues do not include value added tax and sales tax.

10. Expenses

Depending on their nature expenses are divided into expenses incurred in the course of ordinary activities, other operating, non-sales and extraordinary expenses.

Expenses incurred in the course of ordinary activities are accounted in the cash amount equal to corresponding payment and account payable.

11. State grants

State grants are recognized at the moment they are received.

12. Employee benefits

The Company pays all due contributions to the pension fund of the Russian federation and also to social insurance and employment funds on behalf of its employees. The Company contributes to the Pension fund 28% of the gross employee salaries and expenses as they are incurred.

The Company also participates in pension schemes contributing agreed amounts to certain non-government pension plans. Such amounts are negotiated annually and charged to expenses when incurred.

13. Earnings per share

In accordance with methodological recommendations on disclosing information about

earnings per share approved by the order of the Ministry of Finance of the Russian Federation # 29n from March 21, 2000, earnings per share are calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

14. Reorganization of OAO Sibirtelecom through merger

Prior to reorganization the accounting policy of OAO Sibirtelecom and those of the to be merged companies had an essential difference: in some companies no depreciation was charged to fixed assets of less than 10 000 rubles, instead their cost was charged to expenses on start of their operation.

There were no other material differences in accounting policies as all accounting policies for 2002 of the companies to be merged were based on a unified policy of reporting for companies within the Svyazinvest group and agreed with OAO Sibirtelecom.

On the date of reorganization an inventory was taken of assets and liabilities of merged companies. As a result of this stocktaking separate assets, which could not be transferred to the assignee (licenses, trade marks, letterheads) were included in organizational expenses.

15. Principal alterations of the accounting policy in 2002 as compared to 2001

The following alterations were made in the accounting policies of the merged companies in 2002 as compared to 2001

■ Provision for doubtful debts

In 2002 it was required to create a provision in a full amount for debts overdue more than 90 days. This requirement was not applicable to accounts receivable overdue less than 90 days.

In 2001 the amount of provision was separately defined for each doubtful account receivable depending on the probability of its repayment.

■ *Revenues from sale of goods and services*

In 2002 for taxation purposes revenues from sale of goods and services were determined in the following way:

- tax accrual method was used to determine a base for income tax;
- payment method was used to determine a base for value added tax, road tax and other taxes.

In 2001 revenues on sale of goods and services for taxation purposes were determined by the payment method (for non-cash transactions - once money was transferred to the Company's bank account, for cash transactions – once payment was received in cash).

■ *Costing of inventory reflecting its manufacture or purchase*

In 2002 the actual cost of inventory was determined using account 15 «Manufacture and purchase of goods» and 16 «deviation in the cost of goods».

In 2001 inventory accounting was done without use of these accounts.

■ *Production costing and calculating cost of goods (services) sold*

In 2002 calculation of costs was done separately for different types of services and goods produced. In 2001 calculation for different types was not separated.

Beside the above-mentioned, the methods and registers of accounting were altered in 2002 in accordance with the Ministry of Finance's order # 94n of October 31, 2000.

The management of the Company believes that the new accounting approach proved more reliable in presenting the Company's operations in 2002. The consequences of alterations in the accounting policy were not reflected in the accounting report for the previous year as such consequences can hardly be reasonably correctly estimated in cash terms.

Chapter 15

Notes to the Financial Statements (RAS)

Note 1. Fixed assets

Historical cost of fixed assets, RUR thousands	Buildings	Constructions	Machinery and equipment	Vehicles	Other	TOTAL
	Historical cost as of December 31, 2001	2 230 030	4 538 659	7 408 592	218 839	164 297
Revaluation of Fixed assets as of January 1, 2002			1 895			1 895
Replacement cost as of January 1, 2002	2 230 030	4 538 659	7 410 487	218 839	164 297	14 562 312
Additions	115 620	745 540	1 593 352	38 237	49 727	2 542 476
Disposals	38 394	51 152	157 560	8 943	36 079	292 128
Replacement cost as of December 31, 2002	2 307 256	5 233 047	8 846 279	248 133	177 945	16 812 660

Accumulated depreciation, RUR thousands	Buildings	Constructions	Machinery and equipment	Vehicles	Other	TOTAL
	Accumulated depreciation as of December 31, 2001	487 403	2 558 866	3 082 249	128 466	99 154
Revaluation of depreciation as of January 1, 2002			940			940
Accumulated depreciation revalued as of January 1, 2002	487 403	2 558 866	3 083 189	128 466	99 154	6 357 078
Depreciation charged for the year 2002	50 951	278 110	375 929	19 999	60 197	785 186
Depreciation on disposals in the year 2002	9 859	62 379	118 084	9 256	8 388	207 966
Accumulated depreciation revalued as of December 31, 2002	528 495	2 774 597	3 341 034	139 209	150 963	6 934 298

Net book amount
of fixed assets,
RUR thousands

	Buildings	Construc- tions	Machinery and equip- ment	Vehicles	Other	TOTAL
Net book amount as of January 1, 2002	1 742 627	1 979 793	4 327 298	90 373	65 143	8 205 234
Net book amount as of December 31, 2002	1 778 761	2 458 450	5 505 245	108 924	26 982	9 878 362

Note 2. Construction in progress

Investments
in fixed assets
as of December
31, 2002,
RUR thousands

	Fixed assets for production activities	Fixed assets for non-production activities	TOTAL
Account 07 «Equipment awaiting installation»	X	X	58 429
Account 08 «Investments in non-current assets» including:	609 296	138 691	747 987
Construction, modernization and reconstruction works of external contractors	452 711	135 176	587 887
Other investments in non-current assets	156 585	3 515	160 100
TOTAL	X	X	806 416

Note 3. Long-term financial assets

Year 2002,
RUR thousands

	Equity	Promissory notes	Loans granted	Other long- term finan- cial assets	TOTAL
Balance as of January 1, 2002	82 650	5 780	400	6 436	95 266
Additions	120	25	0	567	712
Disposals	4 909	200	400	4 443	9 952
Balance as of December 31, 2002	77 861	5 605	0	2 560	86 002

Shareholdings
of OAO Sibirtelecom,
as of December 31,
2002,
RUR thousands

	Percentage of owner- ship	Book value (in RUR thousands)
Total shareholdings		77 861
Investment in subsidiaries	> 50%	46 653
including:		
ZAO Kuzbass Cellular Telephone GSM	100%	114
ZAO Altaiskaya Telecommunication Company	100%	1 968
ООО Private Security Agency Ekrantelecom	82.5%	9 339
OAO NGTS-PAGE	72.7%	2 395
ООО Telephone Company TAKO	66.6%	0
ZAO Region – net	66%	66
ZAO Altaiskaya Investment Company	62.5%	329
ZAO South-Siberian Cellular Communications	55%	28
OAO Regional Information Nets	51%	77
ZAO Eniseytelecom	51%	19 800
ZAO Baikalwestcom	51%	12 537
Investment in associated companies	20-50%	8 061
including:		
ZAO Novokom	50%	2 080
ZAO TeleRoss-Novosibirsk	50%	230
ZAO Novosibirsk Cellular Telecommunications-450	50%	25
ООО Scientific and manufacturing company Svyazinteh	49%	5
ZAO ATS-41	49%	1 985
ZAO ATS-32	40.42%	5
OAO Irkutsk clearing house	34%	680
ZAO Yellow Pages - Tomsktelekom	33.33%	3
ZAO ChitaNET	31%	357
ZAO Siberian Cellular Systems-900	30%	30
ZAO Gorno-Altaysk Cellular Communications	30%	15
OAO Digital Network and Telecommunication Systems of Novosibirsk	30%	27
Region		
ZAO Omsk Cellular Telecommunications	29%	13
OAO AK Mobiltelecom	25.99%	2 599
ООО Svyazinvest – Media – Siberia	25.01%	3
ZAO Sibton	21.8%	4
Investment in other organizations	< 20%	23 147

Note 4. Inventory

Raw materials,
supplies and other
similar assets,
RUR thousands

	As of January 1, 2002	As of December 31, 2002
Cable	81 887	99 011
Fuel	10 060	11 377
Spare parts	54 278	67 364
Materials given to other enterprises for processing	2 573	828
Construction materials	25 565	31 825
Tools	21 863	42 827
Other materials	144 654	171 052
Divergence in the cost of inventory	1 037	3 141
Total	341 917	427 425

Note 5. Other long-term receivables

Other receivables,
RUR thousands

	As of December 31, 2002
Settlements with personnel	41 217
Other settlements	5 493
Total other receivables	46 710

Note 6. Short-term trade accounts receivable

Receivables
as of December
31, 2002,
RUR thousands

	Trade receivables	Allowance for doubtful accounts	Trade receivables less allowance for doubtful accounts
Telecom services	1 678 407	750 287	928 120
Residential customers	579 620	94 207	485 413
Settlements on providing reimbursement	561 936	449 953	111 983
Government customers	211 432	95 923	115 509
Corporate customers	325 419	110 204	215 215
Non-core activities	52 559	10 255	42 304
Total receivables	1 730 966	760 542	970 424

Note 7. Other short-term receivables

Other receivables, RUR thousands	As of December 31, 2002
Taxes prepaid	184 091
Settlements with advance holders	3 278
Settlements with personnel on other operations	49 624
Insurance settlements	4 346
Claim receivables	8 393
Other receivables	151 353
TOTAL other receivables	401 085

Note 8. Short-term financial assets

2002, RUR thousands	Promissory notes	Bought-back Sibirtelecom shares	Other short- term finan- cial assets	Revaluation	TOTAL
Balance as of 1.01.2002	17 698	0	10 115	0	27 813
Additions	183 791	0	3 713	0	187 504
Disposals	167 317	0	9 566	0	176 883
Balance as of 31.12.2002	34 172	0	4 262	0	38 434

Note 9. Cash and cash equivalents

RUR thousands	As of December 31, 2002
Cash in hand	10 017
Cash at bank (RUR)	368 784
Cash at bank (USD)	26
Other cash and cash equivalents	22 272
TOTAL cash and cash equivalents	401 099

Note 10. Share capital

The share capital of the Company is calculated as the sum of par value of shares outstanding. As of December 31, 2002 the share capital equaled 2 387 973 276 rubles 45 kopecks.

The structure
of the share capital
as of December 31,
2002

	As of December 31, 2002
Number of ordinary shares outstanding	12 011 401 829
Ordinary share par value (RUR)	0.15
Share capital attributable to ordinary shares (RUR thousands)	1 801 710
Number of preference shares outstanding	3 908 420 014
Preference share par value (RUR)	0.15
Share capital attributable to preference shares (RUR thousands)	586 263
Total share capital	2 387 973

On April 26, 2002 the Board of directors of ОАО Sibirtelecom took a decision to issue additional ordinary shares in the number of 9 334 815 322 and preference shares (type A) in the number of 3 016 234 561 by way of conversion of shares of the merged companies.

On October 25, 2002 the Federal Commission on the Securities Market of Russia officially registered securities to be issued through conversion of securities of telecom operators of Siberia merging with Sibirtelecom.

On November 30, 2002 conversion of shares of telecom operators of Siberia merging with Sibirtelecom was completed.

On December 27, 2002 the Federal Commission on Securities Market of Russia registered security issue reports on conversion of securities of telecom operators of Siberia merging with Sibirtelecom.

State registration of amendments to the Charter was completed on February 10, 2003. The change of the Charter capital was considered to be an important event characterizing economic condition of the Company on the reported date. In accordance with PBU 7/98 «Events following the reported date» this change was reflected in the attached accounts as of December 31, 2002.

The share capital of the Company after the merger is less than the sum of share capitals of all merged companies before merger. This reduction was caused by grown capital of the base organization resulting from conversion of the shares of the merged companies.

The amount of retained income of previous years was increased by an extra value above par value of shares of additional issue used for conversion in the process of reorganization.

Note 11. Purchase of own shares

In 2002 ОАО Sibirtelecom did not purchase own ordinary or preference shares. As of date of its reorganization ОАО Sibirtelecom did not purchase shares from its shareholders.

Note 12. Distribution of income of 2002 financial year

The Board of directors of ОАО Sibirtelecom recommended to the annual shareholders' meeting the following distribution of 2002 income (RUR thousands).

1. The capital before distribution of income for the reporting period	
Share capital	2 387 973
Reserve capital	62 438
Additional paid-in capital	2 234 145
Accumulated retained earnings	3 768 527
Retained earnings for the reporting period	473 778
Total capital before distribution of income	8 926 861
2. Distribution of income for the reporting period	
Dividends	125 800
3. The capital after income distribution	
Share capital	2 387 973
Reserve capital	62 438
Additional paid-in capital	2 234 145
Accumulated retained earnings	4 116 505
4. Capital increase because of the undistributed income for the reporting year	
Capital increase	347 978

Note 13. Reserve capital

In accordance with Chapter 9 of the Charter of ОАО Sibirtelecom, the Company's reserve capital should be set up in the amount of 5% of the share capital. Thus, as of December 31, 2002 reserve capital was to be equal to 119 398.7 thousand rubles.

The actual reserve capital on the said date was 194 070 thousand rubles. This sum was reflected in the balance sheet as follows:

- 62 438 thousand rubles in line 431 of the Balance sheet representing reserve capital of ОАО Sibirtelecom before merger,
- 131 632 thousand rubles in line 460 of the Balance sheet representing reserve capital of the merged companies.

Note 14. Dividends

In 2002 shareholders' meetings of ОАО Sibirtelecom and merging companies approved annual dividends for the year ended on December, 31, 2001 in the total amount of 180 422 thousand rubles. The dividends for 2001 are shown in the financial report for the year ended on December 31, 2002.

The Board of directors of ОАО Sibirtelecom suggested to the annual shareholders' meeting of the merged company dividends for the year 2002 in the amount of 125 800 thousand rubles. The current financial report for the year 2002 does not show dividends suggested based on the results of 2002. They will be shown in the report for the year ended on December 31, 2003 after being approved by the shareholders' meeting of the Company.

Dividends
resulting from 2001
and 2002
(in thousand rubles).

	Dividends charged for the year 2001	Dividends proposed to the Meeting of Shareholders for the year 2002
Preference shares of A type	91 580	46 512
Ordinary shares	88 842	79 288
Total	180 422	125 800

Note 15. Long-term liabilities

RUR
thousands

	As of January 1, 2002	As of December 31, 2002
Long-term bank loans	308 228	400 410
Suppliers credits including interest liabilities	652 456	388 769
Borrowings from ОАО Svyazinvest	1 742	1 021
Borrowings from regional state bodies	28 035	27 555
Other borrowings	90 413	109 119
Total long-term liabilities	1 080 874	926 874

Note 16. Short-term loans and borrowings

RUR
thousands

	As of January 1, 2002	As of December 31, 2002
Short-term bank loans	323 524	938 052
Borrowings from ОАО Svyazinvest		
Other	0	357
Total short-term loans and borrowings	42 095	167 745
	365 619	1 106 154

Note 17. Trade accounts payable

RUR thousands		As of January 1, 2002	As of December 31, 2002
	Alcatel Bell	57 710	76 458
	Ericsson Nicola Tesla		23 988
	Siemens	5 192	
	IskraTEL	17 356	9 143
	RTC-Leasing		119 857
	OAO Alfa-Bank		30 284
	Rostelecom	105 284	186 714
	Other	531 632	684 302
	Total trade payables	717 174	1 130 746

Note 18. Social funds contributions payable

This reflects the Company's payables to state funds of social insurance and security.

Note 19. Taxes payable

RUR thousands		As of January 1, 2002	As of December 31, 2002
	Value added tax		69 181 168 353
	Income tax	32 659	0
	Property tax	32 036	35 468
	Personal income tax	21 095	33 231
	Sales tax	10 534	24 752
	Other taxes	23 175	59 866
	Total payables to budget	188 680	321 670

Note 20. Other payables

RUR thousands	As of January 1, 2002		As of December 31, 2002	
	Deferred taxes payable	204 851		231 221
Settlements for R&D	24 617		16 009	
Payables to employees	124		555	
Payables to insurance companies	223		4 116	
Claim payables	784		2 475	
Payables to agents	253		53	
Other payables	159 173		480 828	
Total other payables	390 025		735 257	

Note 21. Revenues

Revenues from ordinary activities	Revenues (RUR thousands)		Increase		Revenue breakdown	
	2001	2002	RUR thou- sands	%	2001	2002
Revenue from sales of telecom services	9 305 446	11 912 829	2 607 383	28	97%	98%
Revenue from non-core activities	294 325	297 967	3 642	1	3%	2%
Revenue from sales	9 599 771	12 210 796	2 611 025	27	100%	100%

Revenue from sales of telecom services	Revenues (RUR thousands)		Increase		Revenue breakdown	
	2001	2002	RUR thou- sands	%	2001	2002
*IN - intellectual network						
International and domestic long distance communications	4 717 426	5 788 970	1 071 544	23	50.7%	48.6%
Local telephony	3 557 868	4 775 795	1 217 927	34	38.2%	40.1%
Data transmission, Internet, telematics, IN*	368 671	568 615	199 944	54	4.0%	4.8%
Telegraph	267 182	300 897	33 715	13	2.9%	2.5%
Wireless communications	159 607	209 435	49 828	31	1.7%	1.8%
TV and radio broadcasting	34 651	40 159	5 508	16	0.4%	0.3%
Wireline broadcasting	200 040	228 959	28 919	14	2.1%	1.9%
Total revenue from telecom services	9 305 445	11 912 829	2 607 384	28	100%	100%

Note 22. Expenses

Current expenses

	Revenues (RUR thousands)		Increase		Revenue breakdown	
	2001	2002	RUR thousands	%	2001	2002
Network infrastructure and interconnection services	1 193 731	1 909 615	715 884	60	12.4%	15.6%
Depreciation and amortization	707 991	785 186	77 195	11	7.4%	6.4%
Compensation and social tax	3 274 214	4 218 086	943 872	29	34.1%	34.5%
Materials and repair	670 227	905 306	235 079	35	7.0%	7.4%
Electric power, fuel, utilities, space rent payments	541 077	617 705	76 628	14	5.6%	5.1%
Taxes	181 689	169 398	-12 291	-7	1.9%	1.4%
Other expenses	999 836	827 679	-172 157	-17	10.4%	6.8%
Total current expenses	7 568 765	9 432 975	1 864 210	25	78.8%	77.3%

Note 23. Other operating revenues

	2001	2002
Revenue from joint activities	1 440	0
Revenue from disposals of fixed assets	24 884	51 127
Revenue from disposals of other assets	160 801	66 700
Other operating revenue	19 345	94 342
Total	206 470	212 169

Note 24. Other operating expenses

	As of January 1, 2002	As of December 31, 2002
Payments for services of credit organizations	22 753	32 382
Insurance expenses	0	144
Expenses related to disposals of assets	163 214	136 347
Allowances for doubtful accounts	21 235	888 793
Tax expenses	151 305	202 360
Other operating expenses	18 094	77 480
Total	376 601	1 337 506

Note 25. Non-sales revenues

	As of January 1, 2002	As of December 31, 2002
Penalties, fines and charges for breach of contractual terms	20 825	14 277
Payments for incurred losses	1 176	3 853
Income of previous years found out in the reporting year	23 065	33 624
Fluctuations of exchange rates	49 269	21 219
Fluctuations of sums	644	1 729
Value of assets found out in the course of inventory examination	3 499	2 683
Funds obtained freely	13 220	19 301
Other non-sales revenue	37 151	176 917
Total	148 849	273 603

Note 26. Non-sales expenses

	As of January 1, 2002	As of December 31, 2002
Penalties, fines and charges	1 604	7 955
Payments for incurred losses	475	598
Loss of previous years found out in the reporting year	49 854	60 845
Fluctuations of exchange rates	98 992	130 637
Fluctuations of sums	15 730	23 655
Value of assets, lack of which was found out in the course of inventory examination	771	2 418
Accounts receivable, written off due to expired time for suing	28 674	16 567
Accounts receivable, written off due to expired time for suing and other bad debts	26 324	43 996
Charity and sponsorship	23 447	33 271
Remunerations to the Board of directors	17 601	35 089
Material payments	59 787	147 809
Other	192 552	331 053
Total	515 811	833 893

Note 27. Income tax and other similar payments

	As of January 1, 2002	As of December 31, 2002
Income tax	459 994	388 518
Penalties to budget	44 165	18 708
Penalties to social funds	3 019	2 884
Other	166	32 067
Total	507 344	442 177

Note 28. Income per share

The net income of 2002 attributable to ordinary shareholders is 0,0355717 rubles per share.

Note 29. Termination of activity

In 2002 OAO Sibirtelecom did not terminate any kind of activity.

Note 30. State grants

In 2002 the Company received the following state grants:

Name of state grant	RUR thousands
Financing of capital expenditures	334
Financing of current expenses	75 102
Total	75 436

Note 31. Non-government pension plans

In 2002 OAO Sibirtelecom concluded an agreement with a non-government pension fund Telecom Soyuz. The merged companies concluded similar agreements with the NGP fund Telecom Soyuz. OAO Sibirtelecom and the merged companies contributed 79 696 thousand rubles to non-government pension schemes in 2001-2002. The amount of contribution for 2003 is set to be 94 469 thousand rubles.

Note 32. Events following December, 31, 2002

In accordance with the Ministry of Finance order № 56n of 25.11.1998 «On accounting regulation «Events following the reported period» (PBU 7/98) hereinafter we describe events, which took place after December 31, 2002. The most important of them were:

■ *Changes in the Charter*

As decided by the Board of directors of OAO Sibirtelecom on April 26, 2002 and in accordance with regulation of the Federal Commission on the Securities Market of Russia № 1856/r of December 27, 2002 the Charter capital of the Company increased to 2 387 973 thousand rubles. The changes to the Charter were registered on February 10, 2003. The change of the Charter capital was deemed an essential event influencing the conditions in which the Company operated prior to December 31, 2002. In accordance with PBU 7/98 «Events following the reported period» this change of the Charter capital was included in the accounting statements for the reported period.

■ *Bond issue decision*

On December 26, 2002 the Board of directors of OAO Sibirtelecom approved borrowing through issue of interest-bearing unsecured documentary bearer bonds of OAO Sibirtelecom of 3 series. The amount of openly placed issue was set at 1 300 000 000 rubles. The bond interest rate was to be determined on a market basis but not higher than 18%. Bonds were to mature on 1092-nd day from the date of placement.

■ *Purchase of 49% of shares in ZAO Baikalwestcom and ZAO Eniseytelecom*

On February 12, 2003 an extraordinary general shareholders' meeting of OAO Sibirtelecom approved the deal to purchase ordinary shares of ZAO Eniseytelecom (49% of the Charter capital) for \$12 500 000 in the ruble equivalent and ordinary shares of ZAO Baikalwestcom (49% of the Charter capital) for \$8 500 000 in the ruble equivalent. The deal was concluded between

OAO Sibirtelecom and Russian Telecommunications Development Holding Corporation (RTDHC). According to Russian laws such deals are considered deals between interested parties whereas RTDHC is a subsidiary of OAO RTC-Leasing, which is an associate to OAO Svyazinvest. OAO Svyazinvest as a party interested in the deal did not vote. The share purchase of Eniseytelecom and Baikalwestcom was financed by a loan provided by OAO Alpha Bank in the amount of the ruble equivalent of \$21 million.

■ *Finance lease agreements*

In 2002 the Company concluded 43 lease agreements with OAO RTC-leasing. In accordance with terms of agreements the assets will be put on the Lessee's Balance sheet starting in 2003. In 2003 there will be liabilities of 1 087 thousand rubles.

■ *Note 33. Operational contingences (PBU 8/98)*

■ *Licenses*

In April 2003 expires the license given by the Ministry of communication and informatization of the Russian Federation for cable television broadcasting on the territory of Irkutsk region. The management of OAO Sibirtelecom does not see any grounds on which the license may be revoked or suspended instead of continued.

■ *Political situation*

Changes in the political situation, tax or legal environment in Russia influence financial and business operations as well as incomeability of OAO Sibirtelecom. Character and frequency of

such changes and risks involved cannot be insured or predicted. Also unpredictable are their influence on future operations and incomeability of the Company.

■ *Taxation*

The management of OAO Sibirtelecom believes that tax liabilities are fully reflected in the report and are duly fulfilled. However, there is a risk that tax authorities take a very different view on issues where more than one interpretation is possible. This may seriously affect the financial position of the Company.

■ *Existing and potential claims*

OAO Sibirtelecom is a party to litigations, arisen in the course of financial and business operations. The total amount of claims is 136 222 653 rubles. This sum includes the following:

- On the report date we had unresolved disputes with tax authorities on budget payments and taxes for the total amount of 48 532 154 rubles;
- Litigation, wherein the Company is a plaintiff for the total amount of 22 965 978 rubles;
- Litigation, wherein the Company is a defendant for the total amount of 38 333 802 rubles.

■ *Insurance*

In 2002 to a large but not full extent the Company insured its main fixed assets (real estate, equipment, transport, hazardous inventory). Insurance agreements were concluded taking into account the value of assets and probability of impairment.

In 2002 no insurance payment was called for. We did not obtain insurance for discontinued operations, as such a service is not available.

■ *Industry regulation and Company tariffs*

Most of its income OAO Sibirtelecom receives from services, tariffs for which have to be agreed with antimonopoly organs. In 2003 the tariff policy of the Company may be influenced by:

- The position of the Ministry of Antimonopoly Policies and Entrepreneurship Support of the Russian Federation towards changes of the Company's tariffs arising from concluded in 2002 reorganization of communication companies of Siberia;
- Possible changes in the rules of regulation of the telecommunications business in Russia.

Chapter 16

Independent Auditor's Report on IAS Consolidated Financial Statements

To the Shareholders and Board of Directors of OAO Sibirtelecom

1. We have audited the accompanying consolidated balance sheet of OAO Sibirtelecom (a Russian open joint-stock company – hereinafter «the Company»), as of December 31, 2002, and the related statements of operations, cash flows and shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as discussed in paragraph 5, we conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The Company has not presented comparative amounts for the year ended December 31, 2001 as required by International Accounting Standard («IAS») 1, «Presentation of Financial Statements».

4. As described in note 22, the Company has not determined and presented its obligations existing under defined benefits plans in accordance with IAS 19, «Employee Benefits». We were not able to quantify the adjustments, if any, to the financial statements.

5. As described in note 8, the Company's accounting records relating to fixed assets are not designed to support their presentation in accordance with IAS 16, «Property, Plant and Equipment», IAS 29, «Financial Reporting in Hyperinflationary Economies» and IAS 36, «Impairment of Assets». As such, certain estimates were made by management to present

fixed assets in the accompanying financial statements. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to the adjustments, if any, which might have been determined to be necessary had additional evidence been available to analyze more accurately the assumptions and estimates made by management.

6. As a result of the matters described in paragraphs 4 and 5 above, adjustments, if any, could materially affect (i) property, plant and equipment, equipment contributions, assets and liabilities under defined benefit plans, deferred income tax liability, and retained earnings as of December 31, 2002, (ii) depreciation expense, other benefits expense, income tax expense and net income for the year ended December 31, 2002, and (iii) related disclosures.

7. In our opinion, except for the effects on the financial statements of such adjustments, if any, from the matters referred to in paragraphs 3, 4 and 5 above, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OAO Sibirtelecom as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

8. As described in note 1, the Company was the subject of a reorganization that was approved by the shareholders on December 27, 2001. The Company has accounted for the merger based on the principles of uniting of interests as described in IAS 22, «Business Combinations». In applying this method, the Company has reflected amounts in the financial statements as if the entities had been combined from January 1, 2002, the earliest period presented.

August 8, 2003

ZAO Ernst and Young Vneshaudit

Chapter 17

Consolidated financial statements prepared in accordance with International Accounting Standards

Consolidated Balance Sheet as of December 31, 2002

(In thousands of rubles expressed in purchasing power of the ruble at December 31, 2002)

	Note	2002
Assets		
Non-Current Assets		
Property, plant and equipment, net	8	17 801 038
Intangible assets, net	9	163 436
Investment in associates	11	279 017
Available-for-sale financial assets	12	40 850
Advances to suppliers of equipment		182 981
Long-term accounts receivable		54 082
Total non-current assets		18 521 404
Current Assets		
Inventories, net	13	537 865
Trade accounts receivable, net	14	964 929
Other current assets	15	1 152 804
Cash and cash equivalents	16	427 977
Total current assets		3 083 575
Total Assets		21 604 979
Shareholders' Equity and Liabilities		
Shareholders' Equity		
Preference shares	17	586 263
Ordinary shares	17	1 801 710
Inflation impact on share capital	17	1 153 158
Retained earnings and other reserves		9 671 601
Total shareholders' equity		13 212 732
Commitments and Contingencies	23	-
Minority interest		296 436
Non-Current Liabilities		
Long-term borrowings	18	703 238
Obligations under finance leases	19	290 787
Equipment contributions		233 224
Deferred income tax liability	5	1 723 497
Other		7 635
Total non-current liabilities		2 958 381
Current Liabilities		
Accounts payable and accrued expenses	20	2 095 873
Amount payable to Rostelecom for interconnection fees		186 530
Taxes and social security payable	21	701 681
Dividends payable		105 249
Short-term borrowings	18	887 951
Short-term portion of long-term borrowings	18	995 313
Short-term portion of obligations under finance leases	19	164 833
Total current liabilities		5 137 430
Total Liabilities and Shareholders' equity		21 604 979

Consolidated Statement of Operations for the year ended December 31, 2002

(In thousands of rubles
expressed in purchasing
power of the ruble at
December 31, 2002)

*The accompanying notes
are an integral part of
these consolidated
financial statements*

	Note	2002
Revenues	4	13 993 659
Operating Expenses		
Wages, salaries, other benefits and payroll taxes		(4 925 946)
Depreciation and amortization		(1 484 837)
Materials, repairs, maintenance and utilities		(1 597 669)
Taxes other than on income		(451 291)
Interconnection charges		(1 996 220)
Bad debt (expense) recovery		77 503
Loss on disposal of property, plant and equipment		(56 455)
Other operating expenses	4	(1 232 813)
Total operating expenses		(11 667 728)
Income from Operations		2 325 931
Income from associates		112 401
Interest expense and similar items, net	4	(330 449)
Loss on valuation of investments		(25 215)
Other expenses, net		(405 651)
Foreign exchange loss, net		(255 243)
Net monetary gain		391 830
Income before Taxation and Minority Interest		1 813 604
Income Tax Expense	5	(882 004)
Net Income before minority interest		931 600
Minority interest		(191 356)
Net Income		740 244
Preferred Dividends		(88 842)
Net Income available to Ordinary Shareholders		651 402
Basic and diluted earnings per share, rubles	6	0,054

Consolidated Statement of Cash flows for the year ended December 31, 2002

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

	2002
Cash flows from operating activities	
Income before taxation and minority interest	1,813,604
Adjustments for	
Depreciation	1,484,837
Loss on fixed assets disposals	56,455
Long-term investments impairment	25,215
Income from associates	(112,401)
Interest expense, net	330,449
Foreign exchange loss	255,243
Net monetary gain	(391,830)
Inventory obsolescence expense	(8,086)
Bad debt benefit	(77,503)
	3,375,983
Changes in net working capital	
Increase in inventory	(135,627)
(Increase)/decrease in accounts receivable	2,989
(Increase)/decrease on other current assets	(484,632)
Increase in accounts payable and accrued liabilities	611,958
Increase in tax and social security payables	153,500
Income tax paid	(501,841)
Interest paid	(279,615)
Interest received	6,398
Cash flows provided by operating activities	2,749,113
Cash flows from investing activities	
Capital investments	(2,313,273)
Purchase of financial investments	2,724
Dividends received	3,310
Cash flows used in investing activities	(2,307,239)
Cash flows from financing activities	
Proceeds from loans and borrowings	2,752,014
Repayment of loans and borrowings	(2,799,617)
Payments under lease agreements	(50,869)
Dividends paid	(136,265)
Cash flows used in financing activities	(234,737)
Monetary effects on cash and cash equivalents	(55,515)
Increase in cash and cash equivalents	151,622
Cash and cash equivalents at the year beginning	276,355
Cash and cash equivalents at the year end	427,977
Non-monetary transactions:	
Non-cash additions to property, plant and equipment	782,424

Consolidated Statement of Shareholders' Equity for the year ended December 31, 2002

(In thousands of rubles expressed in purchasing power of the ruble at December 31, 2002)

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

	Note	Share capital (Nominal)		Inflation impact on Share capital	Retained Earnings and Other Reserves	Total Equity
		Preference shares	Ordinary shares			
At December 31, 2001	1	586 263	1 801 710	1 153 158	9 111 779	12 652 910
Net income for the year		-	-	-	740 244	740 244
Dividends	7	-	-	-	(180 422)	(180 422)
At December 31, 2002		586 263	1 801 710	1 153 158	9 671 601	13 212 732

Chapter 18 Notes to the Consolidated Financial Statements (IAS)

1. Corporate information

Authorization of accounts

The consolidated financial statements of OAO Sibirtelecom and its subsidiaries (the «Company») for the year ended December 31, 2002 were authorized for issue by its appointed General Director and Chief Accountant on August 8, 2003.

The Company

The Company completed its last charter registration on December 26, 2002. This amendment was due to the process of merging OAO Sibirtelecom with ten other regional telecom enterprises located in the Siberian Federal District of Russia. The Company is an open joint stock company incorporated in Russia.

The Company was privatized in 1994 and its principal activity is providing local and long-distance and international telephone services, telegraph and data transfer services, including Internet. Other types of activity of the Company include construction, maintenance of recreational facilities and other social infrastructure. Associated companies provide cellular and other communications services in the Siberian Federal District of the Russian Federation.

Open joint-stock company Svyazinvest, a federal holding company majority-owned by the Russian Federation, owns 50.67% of the Company's ordinary shares. Domestic and international long-distance telecommunications services are provided by OAO Rostelecom, a subsidiary of OAO Svyazinvest.

The average number of employees in the Company in 2002 was approximately 50 thousand persons (after giving retroactive effect of the reorganization described below).

The registered office of the Company is in the city of Novosibirsk (Russian Federation), 630099, 53 Gorky St.

2002 Reorganization

In 2001 the Company's management started the Company's reorganization by obtaining shareholder approval to merge the following regional enterprises of ОАО Svyazinvest wherein 9,334,775,329 ordinary and 3,016,219,414 preferred shares of the Company were exchanged for 100% of the outstanding voting shares of the regional enterprises as follows:

Regional Enterprise	Shares Issued by the Company		Exchange Ratio
	Ordinary	Preferred	
ОАО Электроsvyaz of Krasnoyarsk region	1 501 895 988	500 634 290	149,76
ОАО Электроsvyaz of Kemerovo region	1 558 697 405	519 565 836	433,85
ОАО Электроsvyaz of Irkutsk region	1 438 811 586	479 571 247	18,82
ОАО Altaitelcom	1 384 929 513	461 639 999	640,02
ОАО Электричeskayasvyaz of Omsk region	1 147 147 521	382 385 698	9,58
ОАО Tomsktelcom	1 310 200 879	436 694 212	34,78
ОАО Электричeskayasvyaz of Khakasia republic	285 890 540		69,29
ОАО Электроsvyaz of Buryatia republic	325 847 296	108 614 440	1 005,13
ОАО Электроsvyaz of Chita region	312 470 198	104 153 691	98,17
ОАО Электроsvyaz of Altai republic	68 884 403	22 960 001	217,26
Total	9 334 775 329	3 016 219 414	

The merger was completed and effective on November 30, 2002. Transaction costs related to the merger were 207,444 and expensed.

While International Financial Reporting Standards do not specify accounting principles to be applied to transactions among entities under common control, the Company has accounted for the merger based on the principles of uniting of interests as described in IAS 22, «Business Combinations». In applying this method, the Company has reflected amounts in the financial statements at their historical carrying amounts as if the entities had been combined from January 1, 2002, the earliest period presented. Unless otherwise described, all information presented in these financial statements gives retroactive effect to the reorganization.

Based on the requirements of IAS 22, the following table summarizes total assets, liabilities, revenue and pre-tax income (loss) for each of the regional operators for the year, in which the reorganization had been completed:

	Total assets	Total liabilities	Revenue	Pre-tax Income (loss)
The Company	5 519 415	2 213 249	2 426 574	70 862
ОАО Электроsvyaz of Krasnoyarsk region	3 214 111	1 051 963	2 698 068	553 446
ОАО Электроsvyaz of Kemerovo region	2 955 879	947 032	1 622 409	215 241
ОАО Электроsvyaz of Irkutsk region	2 827 451	1 457 472	2 195 494	221 765
ОАО Altaitelcom	1 996 411	696 645	1 482 949	156 836
ОАО Elektricheskayasvyaz of Omsk region	1 870 118	754 934	1 164 580	172 760
ОАО Tomsktelecom	1 798 412	463 848	1 063 577	286 988
ОАО Elektricheskayasvyaz of Khakasiya republic	525 043	177 591	308 300	5 189
ОАО Электроsvyaz of Buryatia republic	514 268	147 497	600 357	158 405
ОАО Электроsvyaz of Chita region	505 895	207 216	479 368	(24 231)
ОАО Электроsvyaz of Altai republic	121 256	37 232	98 113	(3 658)
Eliminations and other adjustments	(243 280)	(58 868)	(146 130)	–
Total	21 604 979	8 095 811	13 993 659	1 813 604

Before the restructuring in November 2002, the businesses operated as separate subsidiaries of ОАО Svyazinvest. Accordingly, the Company has a limited operating history as a combined business.

Russian Business Environment

The Russian economy while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be

significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Management cannot predict what effect changes in fiscal, political or tariffing policies may have on the Company's current financial position or its ability to make future investments in property, plant and equipment. The consolidated financial statements do not include any adjustments that might result from these uncertainties. Related effects will be reported in the financial statements, as they become known and estimable.

Liquidity and Financial Resources

As of December 31, 2002, the Company's current liabilities exceeded its current assets by approximately 2,053,855. As a result, significant uncertainties exist as to the Company's liquidity and future capital resources.

To date, the Company has significantly relied upon short-term and long-term financing to fund the improvement of its telecommunications network. This financing has historically been provided through bank loans and vendor financing.

If needed, management believes that certain projects may be deferred or curtailed in order to fund the Company's current operating needs.

Through 2003, the Company anticipates funding from *a)* existing cash reserves, *b)* cash generated from operations, *c)* placement of ruble bonds in the Russian market, and *d)* other financing from domestic and international lending institutions. Management also expects to continue to be able to delay payment for certain operating costs to manage its working capital requirements if necessary.

The accompanying financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments related to the re-coverability and classification of recorded asset amounts or any other adjustments that might result should the Company either be unable to continue as a going concern or if the Company was to dispose of assets outside the normal course of its operating plan.

2. Summary of Significant Accounting Policies

Basis of Preparation

The Company maintains its accounting records and prepares its statutory accounting reports in Russian Rubles and in accordance with the

Regulations on Accounting and Reporting in the Russian Federation. The accompanying financial statements presented in accordance with International Financial Reporting Standards (IFRS) are based upon the statutory accounting records that are maintained in accordance with the Russian accounting regulations under the historical cost convention. These statutory accounting reports have been adjusted to present the accompanying financial statements in accordance with IFRS. IFRS include standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee Foundation (IASCF) that remain in effect. Significant differences exist between Russian Accounting Regulations and IFRS.

The consolidated financial statements have been prepared on an historical cost basis (adjusted for the effects of inflation in accordance with IAS 29), except for the measurement at fair value of available-for-sale financial assets.

Financial statement presentation herein is limited to the balance sheet at December 31, 2002 and the related statements of operations, cash flow and shareholder's equity for the year ended December 31, 2002. A comparative balance sheet at December 31, 2001, along with separate comparative statements of operations, cash flow and shareholder's equity for the year ended December 31, 2001, and the related note disclosures for such comparative financial statements, as required by International Accounting Standard («IAS») No. 1, Presentation of Financial Statements, have not been presented. Following the reorganization described in Note 1, the Company believes that presentation of comparative financial information is not practicable, including the determination of retained earnings as of January 1, 2002.

Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets

and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to December 31, 2002. As described elsewhere, the Company has accounted for the reorganization based on the principles of uniting of interests as described in IAS 22, «Business Combinations».

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred from the Company.

Significant Intrercompany balances and transactions have been eliminated.

Minority interests reflect the interests in subsidiaries not held by the Company (See note 110, Investments in Subsidiaries).

Investments in Associates

The Company's investments in its associates are accounted for under the equity method of accounting. This is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company. The investment in associates are carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The income statement reflects the Company's share of the results of operations of the associates.

Accounting for the Effects of Inflation

The accompanying consolidated financial statements are prepared in accordance with IFRS and under the historical cost convention and adjusted in accordance with IAS 29 «Financial Reporting in Hyperinflationary Economies» (IAS 29).

The adjustments and reclassifications made to the statutory records for the purpose of IFRS reporting include the restatement for changes in the general purchasing power of the ruble in accordance with IAS 29. IAS 29 requires that financial information prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. These adjustments were calculated using conversion factors derived from the Russian Federation Consumer Price Index («CPI») published by the Russian State Committee on Statistics.

The indices used to adjust amounts in these consolidated financial statements with respect to 2002 prices (2002 = 1.0) for the years ended December 31, and the respective conversion factors, are:

Year	Index	Conversion factor
1992	7 541	362,4
1993	67 846	40,3
1994	211 612	12,9
1995	487 575	5,6
1996	594 110	4,6
1997	659 403	4,1
1998	1 216 401	2,2
1999	1 663 091	1,6
2000	1 997 843	1,4
2001	2 374 037	1,2
2002	2 733 087	1,0

The main guidelines followed in adjusting the consolidated financial statements to current purchasing power are:

- all amounts are stated in terms of the measuring unit current at December 31, 2002;
- monetary assets and liabilities at December 31, 2002 are not restated as they are already expressed in terms of the monetary unit current at December 31, 2002;
- non-monetary assets and liabilities which are not carried at amounts current at December 31, 2002 and shareholders' equity are restated by applying the relevant conversion factors;
- indexation adjustments to property, plant and equipment applicable to prior periods are credited to «Retained earnings and other reserves» in the accompanying balance sheet;
- all items in the consolidated statements of income and of cash flows are adjusted by applying appropriate conversion factors with the exception of depreciation, amortization and losses from disposal of fixed assets and other assets;
- the effect of inflation on the Company's net monetary position is included in the consolidated statement of operations as a gain or loss on net monetary position.

Effective from January 1, 2003, international accounting and financial reporting bodies have

determined that the Russian Federation no longer meets the criteria of IAS 29 for hyperinflation. As a result, management has determined that it will cease to restate for changes in the general purchasing power of the ruble subsequent to December 31, 2002. The annual rate of inflation during 2002 was 15.1%.

Foreign Currency Translation

Foreign currency assets and liabilities are translated into rubles at official Central Bank of the Russian Federation (CBR) exchange rates at the year end. Transactions denominated in foreign currencies are reported at the CBR rates of exchange at the date of the transaction. Any gains or losses on assets and liabilities denominated in foreign currencies arising from a change in official exchange rates after the date of transaction are recognized as currency translation gains or losses.

Transactions that are conducted in rubles when the related assets and liabilities are denominated in foreign currencies (or conventional units) are recorded in the Company's financial statements on the same principles as transactions denominated in foreign currencies.

Property, Plant and Equipment

Property, plant and equipment are depreciated on the straight-line basis over the estimated economic useful lives of each class of assets as follows:

Buildings and constructions	45-50 years
Analogue switches	10-15 years
Digital switches	10-15 years
Cable and transmission devices:	
Duct	20 years
Radio and fixed link transmission equipment	20 years
Vehicles	5 years
Computers, office and other equipment	5 years

Construction in progress is recorded as the total of actual expenses incurred by the Company from the beginning of construction to the reporting date, adjusted for the effect of inflation from the date when such expenses occur to the reporting date in accordance with IAS 29.

Borrowing costs that are directly attributable to the acquisition or construction of fixed assets are capitalized as part of the cost of the related asset when it is probable that they will result in future economic benefits to the Company and the costs can be measured reliably. Capitalization of borrowing costs commences when the activities to prepare the asset for intended use start and lasts until the assets are ready for their intended use. Other interest expenses and borrowing costs are recognized as expenses in the period in which they are incurred.

Construction in progress is depreciated once put into operation.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. Renewals and betterments are capitalized. Upon sale or retire-

ment of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

The period of validity of the Company's operating licenses is significantly shorter than the useful lives used for depreciation of the cost of property, plant and equipment. Management believes that the operating licenses will be renewed without significant cost, which would allow the Company to realize the cost of its property, plant and equipment through normal operations.

Property, Plant and Equipment Contributions

Property, plant and equipment transferred to the Company free of charge by its customers and other entities outside the privatization process is capitalized at market value at the date of transfer and a corresponding deferred income is recognized as a liability in the balance sheet and credited to the statement of operations on the same basis as the equipment is depreciated. If contributions of property, plant and equipment do not generate revenues such contributions are not recorded.

Grants received from municipal authorities for the purchase of property, plant and equipment are reflected in the balance sheet as deferred income and recognized as income during the useful life of a respective asset in accordance with IAS 20 «Accounting for Government Grants and Disclosure of Government Aid Information».

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any

negative goodwill arising on the acquisition. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against incomes in the year in which it is incurred.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Research and Development Costs

Research and development costs are expensed as incurred.

Investments

All investments are initially recognized at cost. After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognized in income. Gains or losses on available-for-sale investments are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost using the effective interest rate method.

The majority of the Company's investments are in securities that are not actively traded on organized financial markets. Management believes that fair value for these investments approximates their carrying amount.

Inventories

Inventories are priced at the lower of cost or net realizable value. Cost is determined primarily using the specific identification method.

Accounts Receivable

Accounts receivable are stated at face value, less an allowance for doubtful accounts. An estimate of doubtful debts is made when collection of the full amount is no longer probable.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in the Company's bank accounts, as well as cash deposits and short-term investments with original maturity dates of 3 months or less as of December 31, 2002.

Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognized at cost. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

Non interest-Bearing Loans and Borrowings

Non interest-bearing loans and borrowings are carried at their fair market value estimated by discounting future payments to their present value. Weighted average interest rates are used as an approximation to market interest rates.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is

used, the increase in the provision due to the passage of time is recognized as an interest expense.

Pensions and Other Post-employment Benefits

Social contributions (including contributions to the state pension fund) are made through a unified social tax («UST») calculated by the Company by the application of a regressive rate from 35.6% to approximately 18% to the annual gross remuneration of each employee. The Company allocates the UST to three social funds (state pension fund, social and medical insurance funds), where the rate of contributions to the pension fund vary from 28% to 14% depending on the annual gross salary of each employee.

The Company's contributions relating to the UST are expensed in the year to which they relate.

Under collective bargaining agreements, the Company also provides post-employment retirement benefits. The majority of the Company's employees are eligible to participate under such defined benefit plans based upon a number of factors, including years of service, age and compensation. The Company has not complied with IAS 19, «Employee Benefits». Specifically, the Company has not made an actuarial determination of the present value of its benefit obligation under these arrangements to allow it to record its obligation and make the required disclosures under IAS 19 as of December 31, 2002.

In order to fund a portion of the Company's obligation, the Company has committed to contribute agreed amounts (negotiated annually) to certain non-government pension plans. Contributions made by the Company to these plans are charged to expense when incurred.

Leases

Finance leases of equipment that transfer substantially all the risks and rewards incident to ownership of the leased item to the Company are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease pay-

ments. Lease payments are apportioned between the finance charges and reduction of the lease liability so far as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

The Company categorizes the revenue sources in eleven major categories:

1. Monthly subscription fees for local services;
2. Long distance services;
3. Network services;
4. Installation fees;
5. Internet services;
6. Radio and TV broadcasting;
7. Rent of assets;
8. Telegraph services;
9. Wireless services;
10. Other telecommunications services;
11. Other services.

Monthly subscription fees for local services

The Company recognizes revenues related to the monthly network fees for local services in the month the service is provided to the subscriber.

Long distance services

Revenues from long distance services are based on time used by the caller, the destination of the call and the services utilized. The Company charges long distance fees on a perminute basis. The Company recognizes revenues related to the long distance services in the period the services are rendered.

Network services

The Company provides other telecom operators with access to its network. The Company recognizes revenues related to network services in the period when the services were rendered.

Installation fees

The Company recognizes installation fees for indefinite contracts with its subscribers as revenues when the installation is complete.

Internet services

The Company recognizes revenues related to the Internet services in the period when the services are rendered.

Radio and TV broadcasting

The Company maintains the wireline radiobroadcasting network. The revenues comprise the monthly fees from subscribers and the installation fees for wireline radio sets. The Company recognizes the revenues related to radio broadcasting in the period when the services were rendered.

Rent of assets

The Company leases its premises to other businesses under annual contracts. Renewal options are available on the majority of leases. These

contracts are accounted for as operating leases and related rental revenues are recognized over the lease term.

Telegraph services

Revenues from telegraph services comprise fees for cable transmissions and other wire line data transmission services. The Company recognizes revenues related to telegraph services in the period when the services are rendered.

Wireless services

The Company recognizes the revenues related to wireless services in the period when the services were rendered.

Other telecommunication services

Other telecommunication services mainly include revenues from payphones network, rent of channels, and sales of handsets and accessories.

Other services

Revenues other than telecommunication revenues primarily consist of revenue from production of telecommunication equipment and its technical support, transportation services, maintenance of recreational facilities and other social infrastructure and sale of goods and services provided by non-core units.

Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12 «Income Taxes».

IAS 12 requires the use of a balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The Company's principal temporary differences arise in respect of property, plant and equipment. A deferred tax asset is

recorded only to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability settled based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities relating to undistributed earnings of associated companies are recognized when it is probable that such earnings will be remitted to the Company in the foreseeable future.

Value-added Tax

Value-added taxes related to sales are payable to the tax authorities on an accrual basis based upon invoices issued to the subscriber. VAT incurred for purchases and paid to suppliers may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions that are not currently reclaimable as of the balance sheet date is recognized in the balance sheet on a gross basis.

3. Segment Information

The Company provides telecommunication (wireline and wireless) services and other services. Management considers that the Company operates in one geographical segment. Certain services provided between the wireline and wireless segments are not invoiced, and accordingly not recognized, between the branches of the Company performing such services. During 2002 information about business segments was as follows:

	Wireline communica- tions serv- ices	Wireless communi- cations services	Other opera- tions	Eliminations	Consolida- ted
REVENUE					
External sales	11 574 870	1 429 880	988 909		13 993 659
Inter-segment sales	70 296	75 834	-	(146 130)	-
Total revenue	11 645 166	1 505 714	988 909	(146 130)	13 993 659
RESULT					
Segment result	2 512 718	659 028	392 886	-	3 564 632
Unallocated corporate expenses					(1 238 701)
Income from operations					2 325 931
Income from associates					112 401
Interest expense and similar items, net					(330 449)
Loss on valuation of investments					(25 215)
Other expenses, net					(405 651)
Foreign exchange loss, net					(255 243)
Net monetary gain					391 830
Income tax expense					(882 004)
Minority interest					(191 356)
Net income					740 244
OTHER INFORMATION					
Segment assets	19 707 080	1 862 162		(243 280)	21 325 962
Investment in associate					279 017
Unallocated corporate assets					
Consolidated total assets					21 604 979
Segment liabilities	(3 041 811)	(356 652)		(251 768)	(3 650 231)
Unallocated corporate liabilities					(4 445 580)
Consolidated total liabilities					(8 095 811)
Capital expenditure	2 729 065	388 978			3 118 043
Depreciation	1 361 539	123 298			1 484 837
Other non-cash expenses (excluding depreciation)	(74 517)	1 920	(4 906)		(77 503)

4. Revenues and Expenses

Revenues

	2002
Domestic long distance services	4 823 513
Monthly subscription fees	2 824 649
Service revenues	1 429 880
Installation fees	1 335 936
International long distance services	882 192
Local services	294 515
Telegraph services	286 828
Radio and TV broadcasting	281 197
Data transmission services	71 084
Other telecommunication services	1 311 551
Other revenues	452 314
Total	13 993 659

Service revenues are primarily derived from the wireless segment and mainly include usage charges, subscription fees, value added services, and roaming fees charged to other operators for guest roamers utilizing Company's network.

Other telecommunication services mainly include revenues from lease of channels, payphones exploitation and sales of handsets and accessories.

Revenues other than telecommunication revenues primarily consist of revenue from production of telecommunication equipment and its technical support, transportation services, maintenance of recreational facilities and other social infrastructure and goods and services provided by non-core subsidiaries.

For the year ended December 31, 2002, the Company identified revenue by these major customer groups:

	2002
Residential customers	6 796 657
Corporate customers	5 623 932
Government customers	1 573 070
Total	13 993 659

Other Operating Expenses

	2002
General and administrative expenses	737 537
Cost of goods sold	125 210
Rent (excluding channel rent)	95 614
Audit and consulting expenses	75 443
Advertising	27 117
Other operating expenses	171 892
Total	1 232 813

General and Administrative Expenses

	2002
Payments to Gossvyaznadzor	125 388
Fire and other security expenses	90 563
Representative and business trip expenses	46 396
Transportation	36 395
Post	27 569
Education	20 831
Other general and administrative expenses	390 395
Total	737 537

	2002
Interest expense and similar items	(6 398)
Interest income	283 400
Interest expense	77 590
Leasing interest expense	(24 143)
Less: Capitalized interest	330 449
Total	330 449

5. Income Tax

Income Tax Expense

	2002
Current tax charge	521 356
Deferred tax charge	360 648
Income tax charge	882 004

A reconciliation of the theoretical tax charge to the actual income tax charge is as follows:

	2002
Income from operating activities before income tax	1 813 604
At statutory income tax rate of 24%	435 265
Effect of:	
Expenses non-deductible for tax purposes	220 339
Non-taxable gains	(4 987)
Permanent elements of monetary gain or loss	398 844
Inflation effect on deferred tax balance at beginning of year	(42 960)
Other reconciling items	(124 497)
At effective income tax rate of 49%	882 004

Deferred Income Tax

	Balance Sheet 2002
<i>Deferred income tax liabilities:</i>	
Property, plant and equipment	(8 504 407)
Accounts payable	(69 457)
Accounts receivable	(29 889)
Inventories	(10 812)
Investment valuation difference	(85 096)
Other	(24 325)
Gross deferred income tax liabilities	(8 723 986)
<i>Deferred income tax assets</i>	
Property, plant and equipment	6 598 504
Accounts payable and leasing	195 096
Accounts receivable	134 621
Inventories	29 966
Investment valuation difference	22 755
Other	19 547
Gross deferred income tax assets	7 000 489
Net deferred income tax liability	(1 723 497)

6. Earnings per Share

Basic and diluted earnings per share are calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Ordinary shares issued as part of the reorganization, that has been accounted for similar to a uniting of interests, are included in the calculation of the weighted average number of shares from January 1, 2002 as the financial statements of the Company are prepared as if the combined entity had existed as from that date. Therefore, the number of ordinary shares is the aggregate of the weighted average number of shares of the combining entities, adjusted to equivalent shares of the Company outstanding after the reorganization.

	2002
Net income attributable to ordinary shareholders for basic and diluted EPS	651 402
Weighted average number of ordinary shares for basic and diluted EPS	12 011 401 829
Earnings per ordinary share, rubles (basic and diluted)	0,054

The Company has no potential dilutive shares outstanding.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

7. Dividends Paid and Proposed

Declared and paid
in the year (for the
year 2001)

Dividends on ordinary shares	91 580
Dividends on preference shares	88 842
Total	180 422

Approved by annual
shareholders' meeting
for the year ending
2002 (see note 26,
Subsequent events)

Dividends on ordinary shares	79 288
Dividends on preference shares	46 512
Total	125 800

Dividends paid to shareholders are determined by the directors and legally declared and approved at the annual shareholders' meeting. Earnings available for dividends are limited to incomes determined in accordance with Russian statutory accounting regulations.

8. Property, Plant and Equipment

	Buildings and constructions	Switches and transmission devices	Assets under construction and equipment awaiting installation	Machines and Other	Total
Cost					
As of January 1, 2002	21 709 438	21 549 267	1 219 165	3 837 347	48 315 217
Additions			3 095 697		3 095 697
Disposals	(204 113)	(522 856)	-	(109 252)	(836 221)
Transfers	511 422	1 767 432	(3 268 803)	989 949	-
As of December 31, 2002	22 016 747	22 793 843	1 046 059	4 718 044	50 574 693
Impairment					
As of January 1, 2002	(2 002 625)	(1 896 694)	-	(142 181)	(4 041 500)
Charge for the year	-	-	-	-	-
Recoveries/reversals	3 011	7 713	-	1 612	12 336
As of December 31, 2002	(1 999 614)	(1 888 981)	-	(140 569)	(4 029 164)
Accumulated Depreciation					
As of January 1, 2002	(12 321 357)	(12 615 564)	-	(3 072 722)	(28 009 643)
Charge for the year	(410 180)	(844 175)	-	(196 530)	(1 450 885)
Depreciation on disposals	166 343	459 511	-	90 183	716 037
As of December 31, 2002	(12 565 194)	(13 000 228)	-	(3 179 069)	(28 744 491)
Net book value as of December 31, 2002	7 451 939	7 904 634	1 046 059	1 398 406	17 801 038

The carrying value of plant and equipment held under finance leases at December 31, 2002 is 679,027. Leased assets are pledged as security for the related finance lease liabilities (see note 19).

The total interest costs capitalized during 2002 amounted to 24,143.

Buildings and equipment with a book value of 1,992,780 rubles as of December 31, 2002 secure bank loans (see note 18).

The Company's accounting records relating to fixed assets are not designed to support their presentation in accordance with IAS 16, «Property, Plant and Equipment», IAS 29, «Financial Reporting in Hyperinflationary Economies» and IAS 36, «Impairment of Assets». As such, certain estimates were made by management to present fixed assets in the accompanying financial statements.

In the future, the Company expects to hire an independent appraiser to assist in reconstruction of the historical cost of the Property, Plant and Equipment, in order to make the necessary adjustments, if any, to the Company's books and records, in order to comply with IFRS.

9. Intangible Assets

	Licenses	Software and other	Total
Cost			
At January 1, 2002	2 101	199 341	201 442
Additions	631	85 321	85 952
Disposals	(1 827)	(8 812)	(10 639)
At December 31, 2002	905	275 850	276 755
Accumulated amortization			
At January 1, 2002	(808)	(85 588)	(86 396)
Charge for the year	(127)	(33 825)	(33 952)
Disposals	688	6 341	7 029
At December 31, 2002	(247)	(113 072)	(113 319)
Net book value at December 31, 2002	658	162 778	163 436

Licenses and software are being amortized evenly over their estimated useful lives determined based on terms of license or license agreement for software. Useful lives of other intangibles are 5-10 years.

10. Subsidiaries

The consolidated financial statements include the financial statements of ОАО Sibirtelecom and the significant subsidiaries listed in the following table:

Subsidiary	Main activity	Voting shares 2002
ZAO Kuzbass Cellular Telephone GSM	Cellular of GSM standard	100%
ZAO Altaiskaya Telecommunication Company	Rendering local telephone services	100%
OOO Private Security Agency «Ekrantelecom»	Security activities	82,5%
OAO NGTS-PADGE	Paging	72,7%
ZAO Region – net	CDMA telecommunication services	66%
ZAO Altaiskaya Investment Company	Securities market activities	62,5%
ZAO South-Siberian Cellular Communication	Cellular of NMT450 standard	55%
OAO Regional Information Nets	Internet	51%
ZAO Eniseytelecom	Cellular of GSM 900, NMT 450 standard	51%
ZAO Baikalwestcom	Cellular of GSM 900, NMT 450 standard	51%

All the above-mentioned companies are Russian legal entities registered in accordance with Russian regulations.

11. Investment in Associates

	2002		
	Main activity	Carrying amount	Percentage of ownership
ZAO Siberian Cellular Systems-900	Cellular of GSM 900 standard	249 085	30%
ZAO ATS-32	Rendering local telephone services	12 541	40%
ZAO ATS-41	Rendering local telephone services	5 980	49%
ZAO Novokom	Interconnection line rental	4 343	50%
OAO AK Mobiltelecom	Internet	3 397	26%
ZAO TeleRoss-Novosibirsk	Communication-satellite services	1 846	50%
Other		1 825	
Total		279 017	

12. Available-for-Sale Financial Assets

	2002	
	Percentage of ownership	Amount
ОАО Commercial Bank Accept (Novosibirsk)	9, 4%	21 110
ZАО Siberian Cellular Telecommunications(Omsk)	10%	17 851
ОАО Joint-Stock Commercial Bank Kuzbassugolbank (Kemerovo)	1, 83%	17 180
ОАО Commercial Bank of scientific-technical and social development Sibakadembank (Novosibirsk)	2, 27%	13 979
ZАО RusLeasingSvyaz (Krasnoyarsk)	7, 3%	11 613
ОАО Interregional commercial bank of communication and information technologies development(ОАО) (Tomsk)	0, 22%	10 239
ОАО Joint-Stock Commercial Bank AltayBusiness Bank		3 830
Other		25 560
Total investments		121 362
Investment provision		(80 512)
Total available-for-sale financial assets		40 850

Available-for-sale financial assets do not have a quoted market price in an active market. Accordingly, management has reflected such assets at cost less impairment reserve.

13. Inventories

Inventories at December 31, 2002 comprised the following:

	2002
Cable, materials and spare parts for telecommunication equipment	496 509
Finished goods and goods for sale	45 278
Other inventory	13 260
Less allowance for obsolete inventory	(17 182)
Total	537 865

14. Accounts Receivable

Accounts receivable at December 31, 2002 comprised the following:

	2002
Trade receivables	1 738 320
Less allowance for doubtful accounts	(773 391)
Total	964 929

As of December 31, 2002, the Company identified trade receivables by the following major customer groups:

	2002
Corporate customers	1 205 881
Residential customers	320 995
Government customers	211 444
Total	1 738 320

The Company invoices its governmental and corporate customers on a monthly basis. For residential customers, the Company sends monthly payment requests and substantially relies upon these customers to remit payments based on the received payment requests. All customer payments are based upon tariffs, denominated in rubles, in effect at the time of calls made. In limited circumstances, the Company has billed and collected penalties associated with delays in payment and has been able to obtain certain payments through the Arbitrage Court. In order to further reduce a portion of the risk associated with customer nonpayments, the Company has in certain circumstances negotiated arrangements wherein the Company has accepted payment in goods and services, which are utilized in carrying out its non-core business.

15. Other current assets

Other current assets at December 31, 2002 comprised the following:

	2002
Prepayments and advances	170 360
Settlements with personnel	50 623
VAT	418 936
Taxes prepaid	227 085
Other receivables	285 800
Total	1 152 804

16. Cash and Cash Equivalents

	2002
Cash at bank and in hand	426 777
Short-term bank deposits	1 039
Other	
Total	427 977

The fair value of cash and cash equivalents equals its book value.

17. Share Capital

	2002	
	Shares	Share capital
Preference shares, 0.15 rubles par value		
Shares issued and outstanding as of December 31, 2002	3 908 420 014	586 263
Shares authorized, not issued	2 980 586	
Ordinary shares, 0.15 rubles par value		
Shares issued and outstanding as of December 31, 2002	12 011 401 829	1 801 710
Shares authorized, not issued	8 924 671	
Total share capital		2 387 973

The share capital account represents the authorized capital of the Company as stated in the charter documents. The Company had 12,011,401,829 ordinary shares and 3,908,420,014 preference shares type A issued as of December 31, 2002. All shares have a par value of 0.15 rubles.

Of the capital stock issued as of December 31, 2002, 75.45% was attributable to ordinary shares and 24.55% attributable to preference shares, type A. The ordinary shareholders are allowed one vote per share. Preference shares type A are non-voting. All ordinary shares and preference shares type A are eligible for distribution of earnings available in accordance with Russian statutory accounting regulations. Preference shares type A are entitled to a minimum annual payment of dividends in the amount equal to 10% of statutory income available for dividends. Dividends on preference shares type A may not be less than dividends on ordinary shares. Shareholders of preference shares type A have a preferred right to recover the par value of preference shares in liquidation.

In September 2001, the Company concluded a Depositary Agreement with JPMorgan Chase Bank in respect of American Depositary Receipts (ADRs), Level 1. Each ADR is issued for 800 ordinary shares of the Company. As of December 31, 2002 according to the above-mentioned Depositary Agreement no ADR was issued.

The following represents the Company's shareholders as of December 31, 2002 (in thousands of shares):

	Ordinary shares		Preference shares		Total
		%		%	
OAO Svyazinvest	6 086 602	51	-		6 086 602
Other legal entities	4 777 240	40	2 620 319	67	7 397 559
Individuals	1 147 560	9	1 288 101	33	2 435 661
Total:	12 011 402	100	3 908 420	100	15 919 822

18. Loans and Borrowings

	Currency	Interest rate range (%)	Maturity	2002
<i>Short-term borrowings</i>				
AK Sberbank of RF	RUR	15-21%	2003	293 324
AKB Promstroybank	RUR	16-23%	2003	85 764
AKB Kuzbassugolbank (promissory notes)	RUR	28%	2003	72 177
GUTA-Bank (promissory notes)	RUR	21-28%	2003	64 800
ZAO KB Kedr	RUR	23%	2003	22 400
ОАО Alfa-Bank	RUR	20-21%	2003	22 038
Alcatel Bell	EUR	12%	2003	21 726
Other	RUR			305 722
				887 951
<i>Long-term borrowings</i>				
Sberbank RF	RUR, EUR	19-20%	2004	317 993
Vneshekonombank	EUR	8,5%	2005-2006	300 726
ОАО Alfa-Bank	USD	7%	2004-2006	210 037
KBC bank	EUR	5,94%	2007	142 064
Brussels Lambert Bank H.B.	EUR	5,94%	2004	77 900
Alcatel Bell	EUR	6,6-12%	2004	71 867
Ericsson Nicola Tesla	USD	15%	2002-2003	64 328
ОАО Uralo-Sibirsky Bank	EUR	13%	2003	30 791
Other	USD, RUR			482 845
Total long-term borrowings				1 698 551
Less: current portion of long-term borrowings				995 313
Total				703 238

Short-term borrowings

Short-term borrowings mainly represent ruble bank loans received for working capital financing purposes. Many of these loans are secured by communication equipment.

Also the Company issued promissory notes to GUTA-Bank and AKB KuzbassUgolBank.

Long-term borrowings

Sberbank

The Company's long-term borrowings from Sberbank are represented mainly by a credit line of 7.7 million Euro granted in August 2002, which matures in July 2004. Interest is accrued and paid on a monthly basis. As of December 31, 2002 the Company's outstanding balance on this loan was 239,993. Property, plant and equipment for the amount of 303 million rubles were pledged as a collateral for this loan.

Vnesheconombank

During 1995-1996, the Ministry of Finance of the Russian Federation (hereinafter «the Ministry») granted the Company long-term financing for purchases of telecommunication equipment from various foreign vendors. Vnesheconombank has been acting as an agent of the Ministry on collection of payments from the Company. The liability was initially denominated in Deutsche Mark (DM), and later in Euro after introduction of the Euro. Interest is accrued at a floating rate Plafond_C, which in 2002 was approximately 6.5%, plus 2%. The loan is not secured.

Alfa Bank

The Company's long-term borrowings from Alfabank are represented mainly by the 4.6 million USD denominated loan granted on March 2002. The loan maturity date is February 20, 2006. Interest is accrued and paid on a monthly basis. The loan is secured by communication equipment amounting to 142 million rubles. As of December 31, 2002 the Company's outstanding balance on this loan was 137,196.

KBC Bank

On June 28, 2001 the Company received a loan from KBC Bank in the amount of 4.1 million Euro. During 2002 the annual interest rate on this loan was 5.94%. The loan maturity date is February 15, 2007. Interest is accrued and paid semi-annually. As of December 31, 2002 the Company's outstanding balance on this loan was 142,064.

Brussels Lambert Bank H.B.

On August 27, 2001 the Company received a loan from Brussels Lambert Bank H.B. (BBL) in the amount of 11.4 million Deutschemarks to finance the purchase of equipment. The annual interest rate on this loan was 5.94%. The loan maturity date is September 5, 2003. Interest is accrued and paid semi-annually. As of December 31, 2002 the Company's outstanding balance on this loan was 77,900.

Alkatel

In 1996, 2001 and 2002 the Company entered into several agreements with Alkatel, under which Alcatel delivered and installed telecommunication equipment. Related liability is denominated in Euro. Part of these loans bear interest at 6.6% per annum. The amount of non-interest bearing loans as at December 31, 2002 represents the present value of future payments under the agreements. Interest is accrued at a weighted average interest rate on the Company's interest bearing borrowings obtained in appropriate periods and denominated in Euro, which approximate a 12% per annum.

Eriksson Nikola Tesla

In 1998 and 2001 the Company entered into several agreements with Ericsson Nikola Tesla, under which Ericsson Nikola Tesla delivered telecommunication equipment to the Company. The amounts payable under these agreements are denominated in USD. The agreements do not provide for interest payments thus the amount of liability as at December 31, 2002 represents the present value of future payments. Interest is accrued at a weighted average interest rate on the Company's interest bearing borrowings obtained in appropriate periods and denominated in USD, which approximate a 15% per annum.

19. Obligations under Finance Leases

The Company has finance lease contracts for telecommunication equipment. Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments as of December 31, 2002 are as follows:

	Minimum payments	Present value of payments
Within one year	274 060	164 833
Two to five years	413 856	290 787
Total minimum lease payments	687 916	
Less amounts representing finance charges	232 296	
Present value of minimum lease payments	455 620	455 620

In 2002 the major Company's lessors were Promsvyazleasing and RTC-Leasing (see also Note 24, Related Parties Disclosures). The effective interest rate on finance leases in 2002 varies between 24% and 41% per annum.

In accordance with the agreements with RTC-Leasing, the lessor has a right to adjust schedules of future lease payments subject to certain changes in economic environment, in particular, change in the refinancing rate of the Central Bank of the Russian Federation.

20. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2002 comprised the following:

	2002
Trade accounts payable	683 497
Advances received from subscribers	378 729
Accounts payable for capital construction	577 344
Salaries and wages payable	316 818
Other payables	139 485
Total accounts payable and accrued expenses	2 095 873

21. Taxes and Social Security Payable

As of December 31, 2002, the Company identified the following major taxes payable:

	2002
Value added tax	395 863
Income tax	38 545
Property tax	35 534
Personal income tax	33 321
Sales tax	34 317
Unified social tax	79 285
Road user tax	40 704
Other taxes	44 112
Total	701 681

22. Pension Plans and Employee Benefits

In addition to statutory pension benefits, the Company also contributes to defined benefit plans, which cover most of its employees. Non-government pension fund «Telecom-Soyuz», which is not related to the Company, maintains the plans. The plans provide for payments of retirement benefits starting from statutory retirement age, which is currently 55 for women and 60 for men. The benefits are based on a formula recognizing minimal statutory pension level, length of service, both in the Company and in the telecommunications industry as well as final average earnings and position in the Company. The benefits are not vesting and are subject to the employee retiring from the Company on or after the above-mentioned respective ages. The Company makes contributions to the pension funds in the amounts representing fixed percentage of participating employees' salaries or in amounts fixed in the agreements with pension funds, depending on the nature of each particular agreement.

As described in Note 2, Summary of Significant Accounting Policies, the Company has not made an actuarial determination of the present value

of its benefit obligation under these arrangements to allow it to record its obligation and make the required disclosures under IAS 19, Employee Benefits, as of December 31, 2002.

23. Commitments and Contingencies

Insurance Coverage

The Russian insurance industry is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. During 2002, the Company did not maintain insurance coverage on a significant part of their property, plant and equipment asset bases, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss of destruction of certain assets could have a material adverse effect on the Company's operation and financial position.

Litigation, Claims and Assessments

The Russian legal system is characterized by (1) inconsistencies between and among laws,

Presidential decrees, and Russian governmental, ministerial and local orders, decisions, and resolutions and other acts; (2) conflicting local, regional and federal rules and regulations; (3) the lack of judicial and administrative guidance on interpreting legislation; (4) the relative inexperience of judges and courts in interpreting legislation; and (5) a high degree of discretion on the part of governmental authorities.

Management is unable to estimate what developments may occur in respect of the Russian legal system or the resulting effect of any such developments on the Company's financial condition or future results of operations. The financial statements do not include any adjustment that may result from these uncertainties.

Finance Lease

In 2002 Company entered into a number capital lease agreements with RTC-Leasing, a subsidiary of Rostelecom, equipment delivery under which is expected in 2003. Cost of equipment together with installation and other services subject to capitalization acquired under these agreements amounted to approximately 761.

24. Related Party Disclosures

The Company's consolidated financial statements include the following amounts as of December 31, 2002:

	2002
Accounts receivable from affiliates:	
ОАО Southern Telecommunication Company	4 320
Accounts payable to affiliates:	
ОАО RTC-Leasing	193 235
ОАО Rostelecom	186 530
Non-commercial partnership «Center for research of the problems in development of telecommunications»	35 669
ОАО Investment Communication Company	1 469
ОАО Southern Telecommunication Company	334
ОАО Volgatelecom	7

The consolidated statement of operations for 2002 includes the following transactions:

	2002
Sales to affiliates:	
ZАО Siberian Cellular Systems-900	59 270
ОАО Rostelecom	40 973
Purchases from affiliates:	
ОАО Rostelecom	1 444 161
ОАО RTC-Com	17 485
ОАО Investment Communication Company	1 677
ОАО Volgatelecom	1 320

Svyazinvest

The Company regards Svyazinvest as its parent entity. Svyazinvest was wholly owned by the Russian Government until July 1997 when the Government sold 25% plus one share of the Charter Capital of Svyazinvest to the private sector.

An effectively operating telecommunications and data transmission facility is of great importance to Russia for various reasons including economic, strategic and national security considerations. Consequently, the Government has and may be expected to continue to exercise significant influence over the operations of Svyazinvest and its subsidiary companies.

The Government's influence is not confined to its share holdings in Svyazinvest. It has general authority to regulate tariffs and does regulate domestic long distance tariffs to a limited extent. In addition, the Ministry of Communications and Informatization of the Russian Federation has control over the licensing of providers of telecommunications services.

Rostelecom

Rostelecom, a majority owned subsidiary of Svyazinvest, is the primary provider of domestic long distance and international telecommunications services in the Russian Federation. The Company has negotiated interconnection agreements with Rostelecom. The annual expense associated with traffic carried by Rostelecom and terminated outside of the Company's network is stated as interconnection charges. In 2002 interconnection charges related to Rostelecom amounted to 1,444,161.

Transactions with State organisations

State organisations are a significant element in the Company's customer base, purchasing services both directly through numerous authorities and indirectly through their affiliates. Certain entities financed by the Government budget are users of the Company's network. These entities are generally charged lower tariffs as approved by the Ministry of Antimonopoly Policies and Entrepreneurship Support than those charged to

other customers. In addition, the Government may by law require the Company to provide certain services to the Government in connection with national security and the detection of crime.

Government subscribers accounted for approximately 12 % of trade accounts receivable as of December 31, 2002. Amounts outstanding from Government subscribers as of December 31, 2002 amounted to 211,444.

Investments

During 2002 the Company rendered services to its 30% investee ZAO Siberian Cellular Systems-900 amounting to 59,270. These services are represented by communication services, rent and other.

Also the Company entered into transactions with other investees that included provision of interconnection into the common use network, rent of premises for technological and office use. The overall effect of these transactions on the financial condition of the Company is not material.

Non-commercial partnership «Center for research of the problems in development of telecommunications»

Non-commercial partnership «Center for research of the problems in development of telecommunications» (hereinafter «the Partnership») is an entity related to OAO Svyazinvest. The Company has an agreement with the Partnership, under which it provides financing for mutually beneficial projects undertaken by the Partnership on behalf of the Company and other subsidiaries and associates of Svyazinvest. Amount of cost incurred included in other operating expenses in the accompanying consolidated income statement for the year ended December 31, 2002 was 122,224.

RTC-Leasing

RTC-Leasing is an investee of Rostelecom. Rostelecom exercises control over the management, policies and day-to-day operations of RTC-Leasing.

RTC-Leasing purchases telecommunication equipment from domestic and foreign suppliers and leases the equipment. The Company's obligations under capital leases to RTC-Leasing included in the accompanying consolidated balance sheet as at December 31, 2002 was 193,235 of which 190,681 is principal amount and 2,554 is interest accrued.

25. Financial Instruments

Fair Values

Management believes that carrying values of the financial instruments included in the accompanying consolidated balance sheet as at December 31, 2002 approximates their fair values.

Interest Rate Risk

The following table sets out, by maturity, the Company's financial instruments that are exposed to interest rate risk as of December 31, 2002.

	< 1 year	1-5 years	> 5 years	Total
<i>Fixed rate</i>				
Short-term borrowings	887 951	-	-	887 951
Long-term borrowings	834 155	563 670	-	1 397 825
Obligations under finance leases	164 833	290 787	-	455 620
<i>Floating rate</i>				
Loans payable to Vnesheconombank	161 158	139 568	-	300 726

26. Subsequent Events

Issuance of bonds

On May 14, 2003, the Board of Directors approved the issue of 1,530,000 documentary bearer non-convertible bonds with 1,000 rubles face value each. Bonds have 6 coupons. Interest payments per each coupon are scheduled for every 182nd day from the first day of the placement. The interest rate is to be set based on tender held on the date of issue and amounted

14.5%. The bonds mature 1,092 days after the placement. As at July 18, 2003, the bonds were placed in full on Moscow Interbank Currency Exchange.

Purchase of 49% shares in ZAO Baykalwestcom and ZAO Eniseytelecom

In accordance with the decision of the extraordinary shareholders meeting of OAO Sibirtelecom made on February 12, 2003, the Company purchased 49% shares in ZAO Eniseytelecom (237,797 ordinary shares) and

ZAO Baykalwestcom (490 ordinary shares) from Russian Telecommunication Development Holding Corporation (RTDHC) for US\$ 12.5 million and US\$ 8.5 million, respectively. The share register record confirming transfer of ownership has been completed as at March 13, 2003.

The purchase was financed with a US\$ 21 million loan from Alfa-Bank. On August 4, 2003 the Company repaid the loan with the cash obtained from the issuance of bonds.

Loan agreements with MDM Bank

On May 21, 2003 the Company concluded an agreement with MDM Bank to obtain a credit for the amount of 42,000. The amounts borrowed under this agreement are repayable within 1 year. Interest is accrued at 15% per annum. Property, plant and equipment for the amount of 52,569 was pledged as a collateral for this agreement.

On June 4, 2003, the Company concluded a credit agreement with MDM Bank for the amount of 42,500. The amounts borrowed under this agreement are repayable within 1 year. Interest is accrued at 15% per annum. Property, plant and equipment for the amount of 52,026 was pledged as a collateral for this agreement.

On June 24, 2003 the Company concluded an agreement with MDM Bank to obtain a credit for the amount of 41,500. The amounts borrowed under this agreement are repayable within 1 year. Interest is accrued at 15% per annum. Property, plant and equipment for the amount of 50,766 was pledged as a collateral for this agreement.

On July 4, 2003, the Company concluded a credit agreement with MDM Bank for the amount of 42,000. The amounts borrowed under this agreement are repayable within 1 year. Interest is accrued at 15% per annum. Property, plant and equipment for the amount of 52,151 was pledged as a collateral for this agreement.

Loan agreement with Gazprombank

On June 17, 2003 the Company concluded an agreement with Gazprombank to open a credit

line for the amounts limited to 350 million rubles and 150 million rubles for the respective periods from June 17, 2003 to May 31, 2003 and from June 1, 2004 to June 30, 2004. The amounts are repayable on June 30, 2004. Interest is accrued at 15% per annum. Property, plant and equipment for the amount of approximately 425 million rubles was pledged as a collateral for this agreement.

Loan agreement with Sberbank

On April 29, 2003 the Company concluded an agreement with Sberbank of the Russian Federation (hereinafter Sberbank) to open a non-revolving credit line for the amount of 150 million rubles repayable on October 26, 2004. Interest is accrued at 16% per annum. Property, plant and equipment for the amount of approximately 174 million rubles was pledged as collateral for this agreement.

Lease agreements with RTC-Leasing

Also in 2003 the Company concluded a number of capital lease agreements with RTC-Leasing, a subsidiary of Rostelecom.

Cost of equipment together with installation and other services subject to capitalization acquired under these agreements amounted to approximately 1,970 million rubles, and related undiscounted future lease payments amounted to approximately 2,816 million rubles.

Software acquisition

In accordance with a Board of Directors decision on May 29, 2003, the Company intended to introduce enterprise management system based on customized software ORACLE E-BUSINESS SUITE. On June 9, 2003 there was an agreement signed by the Company and «Open Technologies 98» for supply of related software for USD 25,034 thousand, of which USD 15,020 thousand was paid as at July 31, 2003.

Dividends

On June 18, 2003, at the annual meeting, the shareholders of the Company approved the dividends for the year 2002 in the amount of 0.0119

rubles per one preference share and 0.0066 rubles per one ordinary share. Total dividend announced amounted to 46,512 and 79,288 for preference and ordinary shares, respectively. Dividends for the year ending December 31, 2002 are payable during 2003 and will be recognized in the financial statements as of and for the year ending December 31, 2003. (See also note 7, Dividends Paid and Proposed.).

Tariffs for Telecom Services

Effective July 1, 2003 tariffs for local calls were increased by 30 %. Tariffs for intercity domestic calls for individuals were increased by approximately 13% while for non-state companies there was a decrease in such tariffs by 27%.

Telecommunications Reforms

- A new law «On Telecommunications» will come into effect on January 1, 2004.
- Subsequent to December 31, 2002, Rostelecom commenced reforms of the system of settlements with regional operators for domestic long-distance traffic. Under the existing method, settlements between Rostelecom and regional operators are based on one minute of

domestic transit traffic sent through 50 km of Rostelecom networks. The integral settlement rate (ISR) contains two components – a linear component and a termination charge, which is calculated based on the weighted average of incoming and outgoing traffic. The ISR was set once a year based on the traffic data for the preceding year and distorted the economic benefits and costs of providing and terminating transit traffic in the year applied.

Under the planned changes, full consideration is expected to be given to the cost of Rostelecom carrying and benefits to the Company in terminating domestic long-distance traffic. Such system will allow the Company to receive revenues for terminating domestic long-distance traffic based on actual volumes of traffic in the current period, which will increase the transparency and timeliness of settlements.

As of August 8, 2003 the Company did not sign the new interconnection agreements with Rostelecom.

Management cannot currently predict the outcome of these changes on the Company's future operations.

Chapter 19

Board of Directors

The members of the Board of directors elected by the Shareholders' Meeting at June 7, 2002:

Valery P. Bakalov	Rector of Siberian state university of telecommunications and informatics
Vadim Y. Baldenkov	Deputy director of Corporate financing and direct investments Department of OAO Svyazinvest
Yury V. Bovkun	General director of ZAO Inversia
Alexandre A. Ermolich	Deputy head of sector of Corporate governance department of OAO Svyazinvest
Alexandre V. Lopatin	Deputy general director of OAO Svyazinvest
Anatoly I. Nikulin	General director of OAO Sibirtelecom, Deputy chairman of the Board of directors of OAO Sibirtelecom
Vasily F. Pashkovsky	First deputy general director of OAO Sibirtelecom
Georgy A. Romsky	Deputy general director of OAO Svyazinvest, Chairman of the Board of directors of OAO Sibirtelecom
Alexandre A. Sheifer	Deputy general director of OAO Sibirtelecom, Chief financial officer

The members of the Board of directors elected by the Shareholders Meeting at June 18, 2003:

Valery P. Bakalov	Rector of Siberian state university of telecommunications and informatics
Maksim V. Bobin	Head of Department of Moscow representative office of NCH Advisors, Inc.
Alexandre A. Ermolich	Deputy head of sector of Corporate governance department of OAO Svyazinvest
Alexandre V. Lopatin	Deputy general director of OAO Svyazinvest, Chairman of the Board of directors of OAO Sibirtelecom
Anatoly I. Nikulin	General director of OAO Sibirtelecom, Deputy chairman of the Board of directors of OAO Sibirtelecom
Marina N. Osadchaya	Head of sector of Marketing and sales management department of OAO Svyazinvest
Vitaly F. Popov	Deputy general director of OAO Sibirtelecom, Director of Tomsktelecom (regional branch of OAO Sibirtelecom)
Igor N. Repin	Expert of Investor protection association
Georgy A. Romsky	Deputy general director of OAO Svyazinvest
Evgeny V. Yurchenko	Deputy general director of OAO Svyazinvest
Elena V. Zabuzova	Director of Economic planning and budgeting department of OAO Svyazinvest

Chapter 20

Auditing Commission

The members of the Auditing Commission elected by the Shareholders Meeting at June 7, 2002:

Sergey I. Alekhin	Chief specialist of Internal audit department of OAO Svyazinvest
Larissa M. Medvedeva	Head of Department of economics and controlling of OAO Sibirtelecom
Sergey V. Podosinov	Chief specialist of Internal audit department of OAO Svyazinvest
Irina V. Prokofyeva	Deputy director – Head of sector of Internal audit department of OAO Svyazinvest
Kirill V. Frolov	Chief specialist of Internal audit department of OAO Svyazinvest

The members of the Auditing Commission elected by the Shareholders Meeting at June 18, 2003:

Sergey I. Alekhin	Chief specialist of Internal audit department of OAO Svyazinvest
Elena A. Kukina	Chief specialist of Direct investment department of OAO Svyazinvest
Larissa M. Medvedeva	Deputy director of Elektrosvyaz of Novosibirsk region (regional branch OAO Sibirtelecom)
Sergey V. Podosinov	Chief specialist of Internal audit department of OAO Svyazinvest
Irina V. Prokofyeva	Director of Internal audit department of OAO Svyazinvest

Chapter 21

Management Board

The members of the Management board appointed by the Board of Directors at August 29, 2002:

Gennady N. Baev	Director of Novosibirsk telephone and telegraph center (business unit of OAO Sibirtelecom in 2002)
Valery K. Bashkov	Director (asset management) of OAO Sibirtelecom
Ivan V. Dadykin	Deputy general director of OAO Sibirtelecom, Commercial director of OAO Sibirtelecom
Nina I. Kirichek	Director (human resources) of OAO Sibirtelecom
Anatoly I. Nikulin	General director of OAO Sibirtelecom, Chairman of Management board
Vladimir V. Nozdrin	Technical director of OAO Sibirtelecom
Vasily F. Pashkovsky	First deputy general director of OAO Sibirtelecom
Victor V. Stolyarov	Director (marketing and development) of OAO Sibirtelecom
Elena A. Troyan	Head of Legal department of OAO Sibirtelecom
Yury D. Tyutnev	Director of Tatarsk telecommunications center (business unit of OAO Sibirtelecom in 2002)
Vitaly S. Verbitsky	Director of Novosibirsk city telephone network (business unit of OAO Sibirtelecom in 2002)
Boris V. Veselikh	Director (construction and investment) of OAO Sibirtelecom

The members of the Management board appointed by the Board of Directors at July 15, 2003:

Ivan V. Dadykin	Deputy general director of OAO Sibirtelecom, Commercial director
Nina I. Kirichek	Deputy general director of OAO Sibirtelecom, Director (human resources)
Mikhail G. Mikhaylov	Deputy general director of OAO Sibirtelecom, Director of Elektrosvyaz of Novosibirsk region (regional branch of OAO Sibirtelecom)
Anatoly I. Nikulin	General director of OAO Sibirtelecom, Chairman of Management board
Vladimir V. Nozdrin	Deputy general director of OAO Sibirtelecom, Technical director
Alexandre I. Polnykov	Director of Capital Investment department of OAO Svyazinvest
Yury A. Terentyev	Deputy general director of OAO Sibirtelecom, Director of Altaitelcom (regional branch of OAO Sibirtelecom)
Galina I. Khvoshinskaya	Chief accountant of OAO Sibirtelecom
Alexandre A. Sheifer	Deputy General Director of OAO Sibirtelecom, Financial Director

Chapter 22

Corporate information

Location:
Russia, 630099, Novosibirsk, Maxim Gorky st, 53.

Principal state registration number:
1025403189778.

Ordinary shares outstanding:
12 011 401 829 штук.

Par value of ordinary shares:
0.15 rubles.

Preference shares of type A outstanding:
3 908 420 014.

Par value of preference shares of type A:
0.15 rubles.

Ordinary shares authorized for issue:
8 924 671.

Preference shares of type A authorized for issue:
2 980 586.

Ordinary shares allowed for circulation outside of the Russian Federation:
8 048 333 959.

Total value of ordinary shares allowed for circulation outside of the Russian Federation:
1 207 250 093.85 rubles.

State registration numbers of issued securities permitted by the FCSM of the Russian Federation:
1-05-00195-A от 19.09.2001 г.,
1-06-00195-A, 1-07-00195-A,
1-08-00195-A, 1-09-00195-A,
1-10-00195-A, 1-11-00195-A,
1-12-00195-A, 1-13-00195-A,
1-14-00195-A и 1-15-00195-A от 25.10.2002 г.

Information on American Depositary Receipts for the Company's ordinary shares:
ADR program level - 1;
symbol – SBTLY;
CUSIP – 825735103;
Ratio of one American depositary share to the number of ordinary shares – 1:800;
Depositary bank – JP Morgan Chase Bank.

Russian trade system code:
ENCO (ordinary shares),
ENCOP (preference shares).

The Company's Registrar:
ZAO «Registrator-Svyaz»,
License № 10-000-1-00258 from 01.10.2002,
Postal address: 107078, Moscow, ul. Kalanchevskaya 15a, P.O.Box 45,
Telephone/fax: 7-095-9753605,
Email: regsw@asvt.ru.

The Company's auditor:
ZAO «Ernst and Young Vneshaudit»,
License № E003246 from 17.01.2003, postal address: 103062, Moscow, Podsosenskiy per., 20/12,
Telephone: 7-095-7059292,
Fax: 7-095-7059293,
Email: moscow@ru.evi.com.

Investor relations:
Sergey Pirozhkov, director of securities and capital markets department
Telephone: 7-3832-191169,
Email: pirozhkov@es-nso.ru
Alexey Shipitsyn, head of investor relations
Telephone: 7-3832-191197,
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Sibirtelecom on the web:
<http://www.sibirtelecom.ru>