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SVYAZ  INVEST

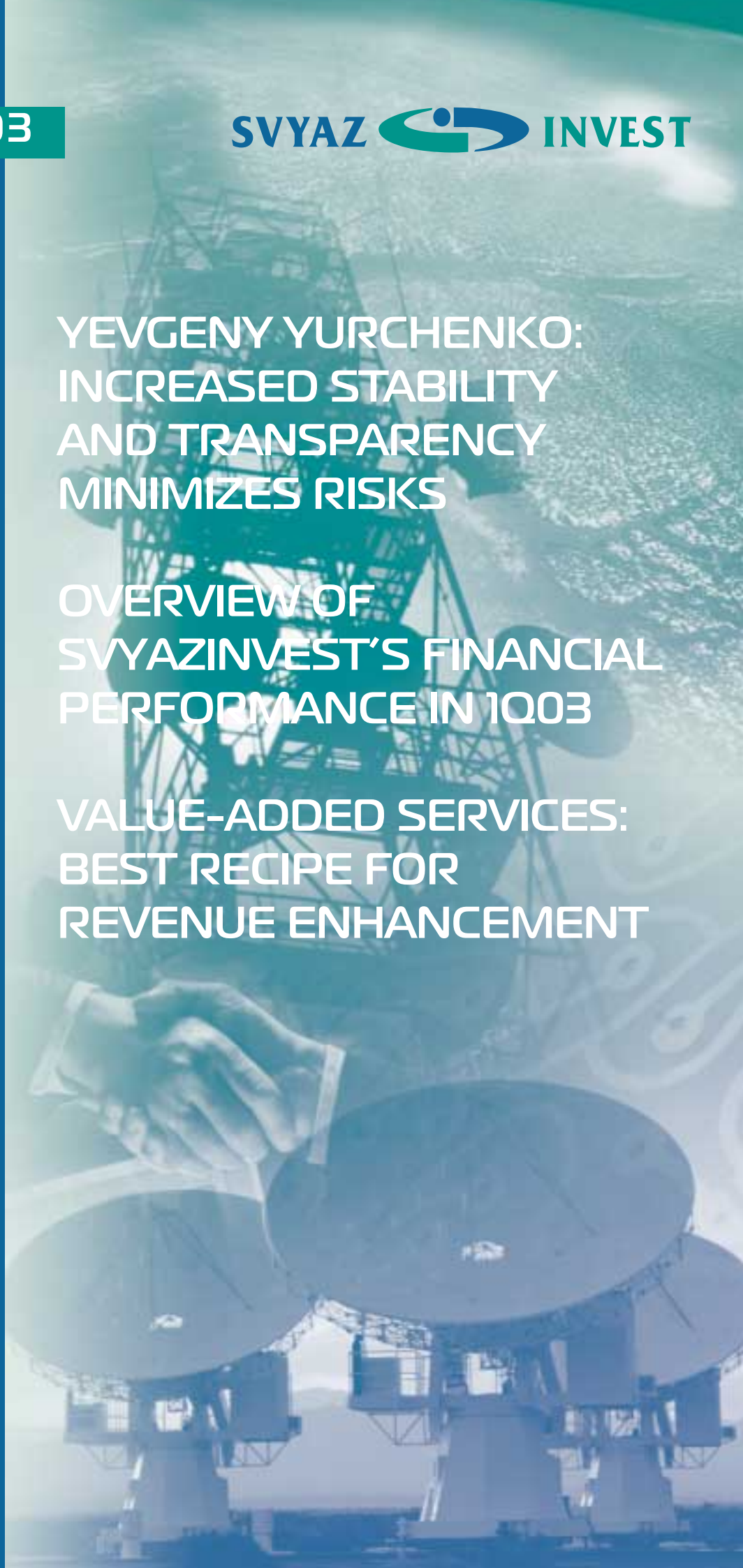
I N V E S T O R R E P O R T

SVYAZINVEST

YEVGENY YURCHENKO:
INCREASED STABILITY
AND TRANSPARENCY
MINIMIZES RISKS

OVERVIEW OF
SVYAZINVEST'S FINANCIAL
PERFORMANCE IN 1Q03

VALUE-ADDED SERVICES:
BEST RECIPE FOR
REVENUE ENHANCEMENT





Ladies and Gentlemen,

Looking back on the first few months of 2003 we can say that Svyazinvest's operations are progressing on schedule, as the consolidated regional operators are now actively merging the former independent companies' businesses.

In 1Q03 Svyazinvest demonstrated further improvements in its financial and operational statistics: operating income was up 16% y-o-y, revenue increased 24%, revenue per line was up 33%, and revenue per employee up 50%. The number of lines per employee, meanwhile, rose 12%.

The Russian and international business communities are demonstrating an ever-increasing interest in Russian telecom operators. This observation is based on feedback from participants in two major annual functions organized by Svyazinvest - a road show in London and New York, and the Moscow conference on Telecommunications and Investment in Russia.

The market has positively responded to our efforts, which can be seen from the rising capitalization and share liquidity of Svyazinvest operators. The capitalization of the companies that make up the holding increased 34% in the first five months of this year to \$4.53bn.

Our expectations with regards to local tariff hikes have also proved true. Discussions between Svyazinvest and the Antimonopoly Ministry (MAP) resulted in a decision to hike local tariffs for all consolidated operators in May-August by an average 29% for households, 23% for government-funded organizations, and 22% for commercial clients. We hope that our cooperation with MAP will continue so that we are able to gradually bring telecom tariffs to a level exceeding operating expenses

Valery N. Yashin
Svyazinvest CEO

Volga Telecom

Volga Telecom has held a presentation of its regional multiservice network in Nizhny Novgorod, which is unique in the city and region in terms of both the technology employed (ATM/IP/MPLS) and the coverage area. The network covers the city and the entire region, offering distinct advantages over other companies with subsidiaries in the area, as the technologies used allow for the creation of corporate networks tailored to specific customer needs. The company started building the multiservice network in 2001 following the installation of Cisco Systems equipment on the regional IP-trunk line and district switches.

Dalsvyaz

The Communications Ministry has granted Dalsvyaz a license to offer channel-leasing services in the Far East, including the Primorye, Khabarovsk, Amur, Kamchatka, Magadan and Sakhalin regions. The license will enable the company to lease local and international channels, trunk lines, TV and radio broadcasting channels, and copper wire last mile.

Dalsvyaz has obtained a unified license to offer telephonic services across the entire Far East federal district. The license enables the company to offer telephonic services for the general public such as e-mail, fax, information access, voice communications, audio-conferencing, video-conferencing and information services. The license will cover the Primorsky and Khabarovsk Krai, and the Amur, Kamchatka, Magadan and Sakhalin regions, as well as the Jewish Autonomous Republic, and will remain valid for five years.

Inter-regional companies

International credit rating agency Standard&Poor's has assigned Volga Telecom a Russian national rating of RUA-. Standard&Poor's also assigned the rating to Volga Telecom's R1bn senior unsecured bond issue due to mature in February 2006. Even after the bond placement in February, the company still enjoys a relatively low debt burden.

Standard&Poor's assigned Center Telecom a corporate governance rating of CGS-5.3 (on a 10-point scale). The rating was calculated on the basis of points awarded for every rated component, assessed according to a 10-point scale.

Standard&Poor's upgraded the long-term credit rating of Southern Telecom from CCC+ to B-. Earlier, Standard&Poor's assigned the company a corporate governance rating of CGS-5.2.

Standard&Poor's upgraded Uralsvyazinform's long-term credit rating from B- to B. The agency believes the company will continue to see steady top line growth, and expects Uralsvyazinform to carry on with its network modernization and corporate restructuring plans. The reorganization should not affect the company's financial situation.

Standard&Poor's also upgraded the long-term credit rating of North-West Telecom from CCC to B. The rating was reviewed upon completion of the merger of the eight incumbent fixed line operators in the North-West federal district.

Government

The Finance Ministry has established a Research and Development Council to provide advisory services to it. The council's main objective is to develop a unified R&D policy for the telecom sector, implementing advanced technologies and practices, and coordinating the work of R&D institutions in the telecom sector.

North-West Telecom

North-West Telecom and Siemens have started building an EWSD transit-terminal exchange. The EWSD exchange, with 40,000 ports, will allow North-West Telecom to provide business clients with a full range of modern telecom services (intellectual network, call-center, voice mail).

Rostelecom

Rostelecom and ITXC Corporation, one of the leading international voice operators, have announced an agreement on the mutual exchange of incoming and outgoing traffic via ITXC's global VoIP-network. The network covers more than 175 countries by means of direct traffic exchange with hundreds of national and international telecom operators. Cooperation with ITXC will enable Rostelecom to carry traffic at competitive tariffs with guaranteed quality, thereby strengthening Rostelecom's position in the Russian long-distance market.

Central Telegraph

Central Telegraph and Moscow Telecommunication Corporation (Comcor) have struck an agreement to offer cable TV services in newly built apartment blocks in the Moscow region. The new apartment owners will have access to 17 Russian TV channels and 40 foreign satellite channels in analogue and digital formats with high studio-level quality, as well as 40 FM radio channels with stereo sound.

ABOUT SVYAZINVEST

Svyazinvest was created in 1995 through the consolidation of controlling stakes in regional fixed line operators.

Svyazinvest's paid-in capital stands at R19.5bn and its shareholders include the Russian Property Ministry (50% plus one share), the Federal Property Fund (25% minus two shares), and a Cyprus-based consortium, Mustcom Ltd. (25% plus one share).

The holding's structure includes seven inter-regional telecoms, as well as Central Telegraph, Lensvyaz, Dagsvyazinform, Komi Svyaz, MGTS and Kostromskaya GTS, sector research facility Giprosvyaz and national long-distance carrier Rostelecom.

The holding's operators own licenses and offer local and long-distance telephony, data transmission, Internet, ISDN and wireless access services, as well as mobile services in GSM, NMT-450, AMPS and DAMPS standards. The operators own more than 80% of Russia's telecom infrastructure and provide services to 90% of the country's telephone users. The installed capacity of their telephone switches is 31.3mn lines and the digitalization level stands at 37%. Svyazinvest companies employ 354,000 people.

Rostelecom, which is part of Svyazinvest, is the only Russian national long distance carrier whose monopoly position is backed by a government guarantee for the next few years. The company

currently operates a reliable digital international network from the Center for International Telecommunications and Television and incorporates seven international switching nodes. Rostelecom's network provides long-distance telephone services to the whole country. The company maintains direct links with 74 countries and participates in 25 international cable systems.

Over the last few reporting periods the holding has demonstrated steady revenue growth and the first quarter of 2003 was no exception, with operators showing a good financial and operating performance.

According to preliminary results, revenue stood at R32.6bn, up 24% y-o-y, revenue per line rose 33% to R1,078, revenue per employee was up 50% y-o-y to more than R88,000, and the number of lines per employee rose from 73.6 to 82.4.

Since 2000 the holding has been involved in a massive restructuring of its regional subsidiaries. At the end of 2002, 72 small regional telecoms were consolidated into the inter-regional companies Center Telecom, North-West Telecom, Uralsvyazinform, Volga Telecom, Sibir Telecom, Southern Telecom and Dalsvyaz. The new operators are comparable with the largest European fixed line telecoms in terms of operational scale and number of users.

The main goal of the holding this year is to carry out corporate reforms.

Holding company's structure

Svyazinvest		
Voting majority	No voting majority	Participation in other companies
7 interregional companies (more than 51%)	MGTS (28%)	RusLeasingSvyaz (38%)
JSC Central Telegraph (51%)	Elektrosvyaz, Republic of Komi (25%)	Svyaz-Bank (1%)
JSC Lensvyaz (51%)	Kostroma GTS (37%)	Registrar-Svyaz (12%)
JSC Dagsvyazinform (51%)		MobiTel (100%)
Rostelecom (51%)		StarKom (25%)
Giprosvyaz (more than 51%)		RTComm.Ru (0,5%)

CONFERENCE «TELECOMMUNICATIONS AND INVESTMENTS IN RUSSIA» RUSSIAN ECONOMIC FORUM

Conference «Telecommunications and Investments in Russia»

On March 28, 2003, Svyazinvest hosted the third international conference «Telecommunications and Investment in Russia.» in Moscow.

Conference participants included representatives from the international and Russian investment communities, telecom company managers, advisors, information system developers, lawyers, and journalists from both mainstream and electronic media outlets.

In his opening speech Svyazinvest General Director Valery Yashin observed that there was good reason for the increasing interest in the conference. The results of last year's gathering demonstrated, he said, the successful development of the Russian telecommunication sector. Yashin's statement was echoed in presentations by government agency representatives that included Communications Minister Leonid Reiman, Deputy Head of the Anti-Monopoly Ministry's Telecom Tariff Regulation department Galina Zhigul'skaya and Deputy Chairman of the State Duma's Transport and Communication Committee Maxim Korobov. The speakers all singled out the completion of Svyazinvest's consolidation as last year's most important development. In addition, presentations focused on the new Telecommunications law and improvements in tariff policy.

Leading analysts and top managers also shared their views on the sector, and included representatives of Accenture, Troika Dialog, United Financial Group, Standard& Poor's Corporate Governance Services and Renaissance Capital. They all praised the efforts of Russian telecommunications professionals in transforming the sector and expressed the hope that the pace of reform will be sustained and that the consolidated companies will develop faster than their peers in other markets.

The conference concluded with a round table discussion that included representatives of the Telecommunications Ministry, Svyazinvest, Rostelecom and alternative operators.



Russian Economic Forum

On April 2 - 4 the VI Russian Economic Forum, dubbed the summit between Russian and Western business elites, was held in London. The British capital was again the meeting place of business and political leaders, senior economists and bankers, influential ministers and deputies, heads of Russian regions and the largest Russian and Western financial corporations and industrial companies.

The business elites discussed issues relating to the fuel and energy sector, the progress of Russian companies' restructuring, the situation in global financial markets, and relations between Russia and the WTO. The exchanges on these issues were mainly of an analytical nature.

Corporate governance featured among the most important themes of the Economic Forum-2003. Most Russian and foreign participants expressed an interest in the theme, as both sides have problems in this area. The forum was therefore a great opportunity to flesh out these issues.

The telecommunications section was attended by representatives of the Telecommunications Ministry, Svyazinvest holding, alternative operators and telecoms market analysts. The meeting was sponsored by Svyazinvest and chaired by General Director Vadim Belov. The Svyazinvest delegation also included deputy General Directors Alexander Lopatin and Yevgeny Yurchenko and top managers from Center Telecom, Southern Telecom, Uralsvyazinform, Volga Telecom and Dalsvyaz. The participants focused on wire communications and the interaction between traditional and alternative networks. Many questions were asked about the new operators' corporate structure.

One-on-one meetings between Svyazinvest and regional consolidated company managers and representatives of leading British and European investment funds were also held.



INCREASED STABILITY AND TRANSPARENCY MINIMIZES RISKS

The formal reorganization of Svyazinvest's regional subsidiaries has been completed and the companies are currently working on merging their businesses. Dramatic changes are also taking place in the holding company itself, which is reorganizing departments and revising their functions and responsibilities.

Svyazinvest is also currently undertaking the huge task of merging its regional pension funds in order to create one of Russia's largest non-government pension funds.

Another important project in which Svyazinvest is currently involved relates to the implementation of enterprise management software (ERP).

We discussed these developments and the outlook for the near future with Svyazinvest Deputy CEO Yevgeny Yurchenko.



Mr. Yurchenko, what are your areas of responsibility within Svyazinvest?

I am responsible for the Finance, IT and Internal Audit Departments. In addition, I am responsible for managing investment projects and coordinating Svyazinvest's vendor selection commissions.

The Finance and IT Departments are new units in Svyazinvest's structure. Why have they become necessary?

The new departments have been created as part of the Svyazinvest restructuring master plan, jointly developed with Accenture, to optimize our operations. We have now finalized the documents outlining

the scope of departmental responsibilities and their status.

Could you elaborate on the scope of the new departments' work?

The Finance Department consolidates cash flows and optimizes Svyazinvest's relationships with banks and investment companies. It is also managing the merger of the pension funds.

We recently drew up a list of authorized banks to service Svyazinvest. We are also seeing a steady decline in the cost of borrowing to fund the working capital requirements of our operators. The most successful bond issue was Volga Telecom's, where we managed to raise funds for three years at an annual interest rate of 13%. Declining debt costs mean it is important to optimize the existing debt portfolio quickly.

Another area of the department's responsibility is debt servicing, i.e. collection of receivables and overdue payments from budgets at all levels, tax optimization and devising financial schemes to increase the efficiency of Svyazinvest's restructuring.

Together with consultants from MKD Partner and Accenture we are developing a transparent

scheme of funds' re-distribution and management throughout the company. This is necessary to obtain real-time information about the holding's liquidity, which in turn enables us to accurately forecast our financial situation.

At present there is a lag of about three months in collecting consolidated data. This is why our main goal is to establish a comprehensive system of financial monitoring based on a bank-client set up, which will allow us to follow all receipts and cash flows on the day in which they occur.

That work has already started and is being carried out in stages. There are two pilot projects being implemented at Southern Telecom and Rostelecom and the interim results show that we are on track to meet the schedule.

Upon successful implementation of this system at Rostelecom and Southern Telecom, financial monitoring systems will be installed in Volga Telecom, Uralsviazinform, North-West Telecom and so on.

How would you describe Svyazinvest's IT Department?

The department has brought under its roof several projects that were formerly covered by other departments. For example, in the past we had one

department in charge of maintaining relations with dealers, another in charge of software, and yet another taking care of networks. Today these functions have been integrated. One of the IT Department's important responsibilities is to coordinate the work of our regional IT services and process feedback from them through proposals for improvements in regional companies' networks. Another important area of department responsibility is consolidation of equipment and software purchases.

The department is currently dealing with a large project to implement an ERP system. A number of systems were reviewed during the competitive bidding process and the winner was Oracle E-Business Suite, which will be implemented both at the level of OAO Svyazinvest and the consolidated regional operators. This product is compatible with the systems and products currently used by North-West Telecom and are being installed at Center Telecom.

Why did Svyazinvest need the ERP system?

The ERP package based on the Oracle E-Business Suite will reduce costs and increase the transparency of Svyazinvest subsidiaries.

International experience shows that ERP systems, which set standards for information and management systems, allow for significant improvements in every area of corporate activities. For instance, companies with highly integrated systems have achieved production cost savings of 10%-15%, equipment purchase savings of 5%-15%, and COGS savings of 20%-40%.

How was the competitive bidding process organized to select the system?

In order to select the ERP system for Svyazinvest, as well as the general systems integrator and general project consultant, we arranged for an independent market review of ERP systems offered on the Russian market between Jan. - March 2003. The review was carried out by Svyazinvest's IT Department with Yunikon and Accenture.

Based on the IT Department's recommendation, we selected two out of 15 IT systems reviewed. Then we conducted a more thorough review of those two products.

In the second stage we examined how well their solutions were tailored to the telecom sector's needs and reviewed their experience at implementation in the telecommunications industry. We also took into consideration the license cost per workstation.

As a result we acquired a good understanding of both products' characteristics. Based on the outcome of the second stage, we selected Oracle E-Business Suite by Oracle Corp.

What timeframe do you envisage for the system's installation in the holding company?

Oracle E-Business Suite 2003 Professional will be installed in Svyazinvest and the seven integrated companies - Center Telecom, North-Western Telecom, Volga Telecom, Southern Telecom, Uralsviainform, Sibir Telecom, Dalsvyaz and their subsidiaries - over the next two to three years. Overseeing the project's implementation will be working groups of senior managers, representatives of the systems

integrator and general consultant, to be set up at Svyazinvest and every consolidated regional operator. In June, the Svyazinvest working group will draw up a detailed implementation plan for July-Dec. 2003.

In accordance with the proposed implementation strategy, installation of the ERP system modules will be carried out in stages. According to the implementation plan for Svyazinvest and the seven regional companies proposed by Accenture and Oracle, the entire installation process will take three-and-a-half years. By the end of 2003 we will launch subsystems of personnel and fixed assets monitoring. In 2004 we plan to complete the installation of financial and accounting modules and in 2005 the logistics module.

Svyazinvest has recently focused much effort on the optimization of equipment purchases. What further steps are you planning in this direction in the near term?

Overseeing equipment purchases is one of the responsibilities of Svyazinvest's investment committee, which maintains relations with suppliers and conducts competitive bidding process to select equipment suppliers and integrators for all regional companies. We thoroughly analyze all of the offers we receive. Equipment vendors view Svyazinvest as one of the most important buyers of switches and data transmission equipment. The considerable expertise of Svyazinvest employees allows them to make the right decisions on which equipment is better to purchase from which supplier - Alcatel, Siemens or Huawei. It goes

without saying that we take into account the needs of regional operators. After a thorough analysis, we sign a delivery agreement and draw up a suitable funding scheme.

The holding's management and staff have already come to appreciate the efficiency of centralized purchasing. First, we have managed to lower wholesale prices; second, we have adopted a more flexible approach to replacing certain pieces of equipment; and third, we have managed to organize equipment purchases on the basis of leasing.

I think the leasing program merits a special mention. The scheme involves cooperation with RTK-Leasing and allows us to accelerated equipment depreciation (over three years), thereby generating significant tax savings. Moreover, under the terms of the agreement we begin making leasing payments only after the equipment has been supplied. Thus, regional operators do not need to come up with funds before the equipment has been supplied, installed, and tested. This is very important given the process of arranging purchases, the integrators' job and the fine-tuning of the supplied equipment combined take not less than six months.

So integrators and vendors only get paid after six months?

They get paid earlier, but the money comes from the leasing company, not from us. The regional integrated companies begin their payments only after all the equipment has been installed and tested. RTK-Leasing has its own capital (about \$160mn); and significant credit resources provided by Sberbank

and other banks. In other words, RTK-Leasing is the financial center funding all of the investment programs. By the way, Svyazinvest's total capex allocations for this year will exceed \$1bn.

Do you plan to channel all equipment purchases through RTK-Leasing?

Yes, but the regional companies will be allowed to buy some of their equipment on their own. However, this is only a small proportion of the equipment acquired under the leasing schemes.

Apart from bonds and leasing schemes, what other instruments do you use to finance your investment needs?

Bank loans have now become one of the most efficient ways of raising funds. We differentiate between short-term loans (up to one-and-a-half years) and long-term loans (up to five years). We have managed to obtain a long-term loan from Sberbank. All of these loans have been collateralized with switching equipment in order to minimize the risk of default and to be able to forecast expected revenues and repayment outlays. The total limit of financing established this year by Sberbank for Svyazinvest could reach \$1bn.

Do you have any other large agreements with Sberbank in the pipeline?

At present we have no need for additional funding and the lines of credit now open are quite sufficient. Apart from Sberbank, we cooperate with Vneshtorgbank, Alfa-Bank, Telecombank, Trust and Investment Bank, Svyazbank, Promsvyazbank and other credit institutions.

Do you plan to issue bonds this year?

Yes, all consolidated regional telecoms plan to raise investment funding through bond issues this year. At this point in the re-organization process, our priority is to ensure the stability and transparency of the subsidiaries' financial situation. Our main goal is to minimize all types of risks. Our potential investors obviously have the same interest.

What are your goals in merging the pension funds?

We are currently in the process of consolidating the telecom sector pension funds. We hope that the newly created pension fund will be the third or fourth largest in terms of total assets in Russia. The actual merger of the Rostelecom-Garantia and Telecom-Soyuz funds has already been completed.

The pension fund's main goal over the next year is to win a share of the mandatory reserves received by the Russian Pension Fund transferable to non-government pension funds for management. In order to be able to do this, non-government pension funds must comply with a number of criteria set by the government and the Commission for non-government pension funds.

Have you already determined the structure of the unified pension fund?

The establishment of such a large pension fund is not an easy task. We began working on it the moment consolidation of regional telecoms was completed. At this point we still have four or five regional pension funds in operation. However, sooner or later they will join one of the larger funds.

ERP SYSTEM - BASIS FOR OPTIMIZATION OF BUSINESS PROCESSES

In late May - early June the boards of all seven consolidated regional operators decided to begin full-scale implementation of enterprise resource planning (ERP) software through Oracle E-Business Suite. The boards also approved contracts with the Open Technologies Company (Oracle's partner), which will coordinate this project at OAO Svyazinvest, the consolidated companies and their subsidiaries.

Experts believe the implementation of Oracle E-Business Suite at Svyazinvest will enable the company to create an integrated solution for managing business processes at all levels. Upon completion of the main stage of the implementation process, Svyazinvest will become one of the most technologically advanced Russian companies.

Re-organization of the Svyazinvest holding and the creation of consolidated regional operators has highlighted a number of problems, primarily in the area of management and IT.

Today each of the seven consolidated companies is a large and geographically bound operation servicing millions of customers. The infrastructure of the companies is expanding every year and new services are coming on board. Cellular services, data transmission, audio and video conferencing and the creation of virtual private networks (VPN) are playing an increasing role in the companies' operations. In this situation, the implementation of a modern enterprise resource planning (ERP) system is particularly important.

Oracle E-Business Suite system matches Svyazinvest's demands for an ERP system better than any other system currently offered on the market. The product debuted internationally in 1979 and in Russia in 1991. Today, the system has been implemented in 7,500 Russian companies, including UES, Unified Metallurgical Company, Rosno Insurance Company, Uralkaliy, etc. The product has been adapted to local conditions and meets the requirements of Russian legislation.

Oracle E-Business Suite has been successfully implemented at a number of large global telecom companies such as British Telecom, France Telecom, Telia, and Telenor. Russian telecom companies using the system include Vimpelcom and Equant. Vimpelcom has already implemented the system at its head office and is now planning to expand it to its 50 regional offices. At Equant, the unified information system became the single corporate standard for accounting and finance. The system supports the operations of all regional subsidiaries in real-time mode. The system supports simultaneous accounting in RAS and IAS, multi-currency accounting, and simultaneous accounting of several subsidiaries within a single system.

The scope of the general license, which includes 13 subsystems, has been determined based on the goals and tasks of the restructuring proposals put forward by Accenture. At Svyazinvest, automation will cover financial planning and data consolidation, separate cost accounting, tax and management accounting, working capital and fixed assets management, cash flow

management, investment portfolio and financial instruments management, maintenance and repair management, full-scale personnel management (accounting, wages, training) and purchasing management.

Accenture has been appointed the general consultant for the project. The company specializes in the implementation of information systems and has experience in carrying out similar projects for telecom companies worldwide. Since Accenture is involved in Svyazinvest restructuring, it is well aware of the state of affairs at the consolidated regional operators. The general consultant is responsible for the results of the project as a whole.

In accordance with Oracle principles, the company provides services in Russia and the CIS only through partner companies. The company Open Technologies has been selected as Oracle E-Business Suite supplier for Svyazinvest because its proposal was found to be the most attractive for Svyazinvest. Open Technologies will implement the project, coordinate the performance of various subcontractors, ensure the use of a unified implementation approach and technical policy, and monitor quality.

The first results of the project are expected next year. Upon completion of the primary phase of ERP implementation on the basis of Oracle E-Business Suite software, Svyazinvest will become one of the most technologically advanced Russian companies. The repayment period of the project is estimated at four to five years.

Oracle is one of the leading corporate software vendors (detailed information may be found at www.oracle.com/ru). According to IDC (www.idc.com), Oracle ranked second on the global market of ERP systems in 2002. Oracle clients include: RTComm.ru, Vimpelcom, Kazakhtelecom, Equant, British Telecom, T&T, Belgacom, British Telecom, France Telecom, Orange, KPN, Nortel, Telenor, Telia, Vodafone, Cesky Mobil, Eesti Mobiltelefon, Latvijas Mobilais Telefons, Lietuvos Telekomas, MOBIL ROM S.A., ROMTELECOM, Westel Mobile Telecommunications Rt, а также ING Bank, Lloyds TSB, ABN-Amro, Toyota, Posco, Alcoa, Honeywell, McDonalds, Visa, General Electric etc.

OVERVIEW OF SVYAZINVEST'S FINANCIAL PERFORMANCE IN 1Q03

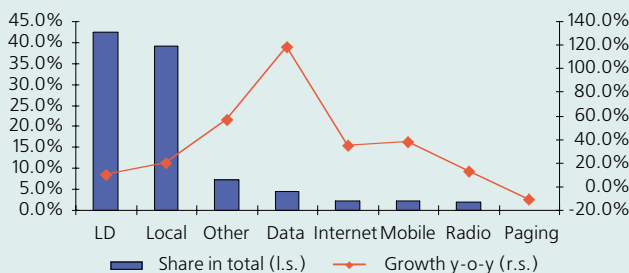
Svyazinvest operators' 1Q03 RAS results should reassure investors that the high growth rates demonstrated by regional telecoms last year will continue through 2003. 1Q03 was the first quarter all Svyazinvest operators reported their numbers on a consolidated basis. The Svyazinvest holding company's 1Q03 consolidated revenues increased 20% y-o-y in dollar terms to \$1.03bn. Strong top line growth remains a distinctive feature of the Russian fixed-line landscape against the backdrop of global stagnation of incumbents' revenue.

The total revenues of Svyazinvest's seven consolidated regional operators in 1Q03 grew in line with those of the holding company, up 20% y-o-y to \$705mn. The strongest revenue growth was demonstrated by Uralsvyazinform (24%), Volga Telecom (22%), Sibir Telecom and Dalsvyaz (20%).

Revenue growth was driven in part by tariff increases in the second half of 2002. Household tariffs were raised about 15% in ruble terms in 2H02, with the average monthly tariff for households reaching \$4.3. Local revenues, which constitute 39% of regional operators' top line, grew 20% y-o-y in dollar terms. Notably, the second most important contributor to regional operators' revenue growth was the data transmission segment. Although it accounts for just 4.5% of total receipts, its growth of 117% y-o-y brought its contribution in terms of growth to a sizable 5%.

Long distance segment, which accounted for 42% of the top line, grew 10% y-o-y. In 1Q03, long-distance revenue continued to be driven by strong growth in traffic volumes on the back of a strong domestic economy. Domestic long distance (DLD)

Revenue segments of Svyazinvest operators (1Q03)



and international long distance (ILD) traffic grew by 20% y-o-y and 12% respectively.

Other revenue segments contributed modestly to regional operators' top lines, although their growth rates were significantly higher than those of traditional services (with the exception of radio and paging). This is due both to their non-tariff-regulated nature and the low base effect. The strongest growth in mobile services was observed at Volga Telecom (up 101% y-o-y) and Dalsvyaz (up 72% y-o-y). Volga Telecom and Dalsvyaz also led in terms of Internet revenue growth - up 83% and 48% respectively.

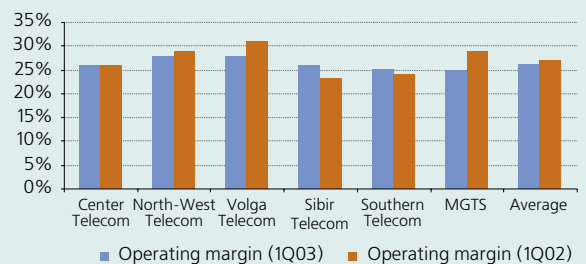
As can be seen in the graph below, the operating margin of Svyazinvest operators deteriorated slightly or remained flat y-o-y, with the exception of Sibir Telecom and Southern Telecom, who posted improvements in operating profitability.

The two key factors that negatively affected operating profitability were higher depreciation (up 28% y-o-y, primarily as a result of massive capex) allocations and salary increases at the end of 2002 and in early 2003.

Bottom line performance of some telecoms deteriorated slightly (see table at the back of Investor Report) due to the introduction of bad debt provisions in 1Q-2Q 2002 and higher interest expense as a result of increased debt burden. Total long-term debt of regional telecoms increased by an impressive 40% y-o-y in dollar terms to \$405mn, as companies were actively raising funds to finance investments.

The strongest growth in net income was demonstrated by Sibir Telecom (up 39% y-o-y) and Dalsvyaz (33% y-o-y).

Svyazinvest operators' operating margins (1Q03 vs. 1Q02)



OVERVIEW OF THE RUSSIAN TELECOMMUNICATIONS MARKET IN 1Q03

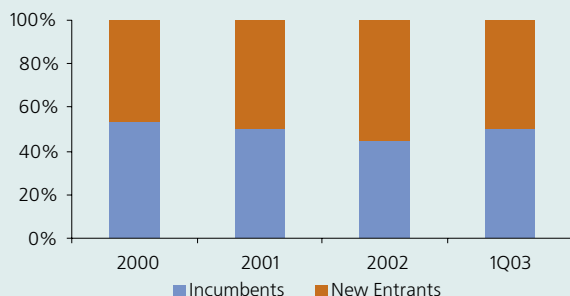
The Russian telecom sector is growing more than twice as fast as GDP, with the Communications Ministry reporting 1Q03 aggregate telecom services volume rose 44.3% y-o-y in dollar terms to R80.5bn (\$2.5bn), compared to 20% GDP growth for the same period in dollar terms. The reason telecom services growth is outpacing GDP is that it still constitutes less than 3% of the economy, compared to about 5% in developed countries.

Traditional operators regained ground lost to new operators, accounting for 50% of total revenues in 1Q03 (R40.3bn), compared to 49% in 1Q02. The traditional operators' top line growth was a result of both tariff increases in the second half of 2002 and rising demand for telecom services from the public - a market segment shunned by the vast majority of alternative operators. Revenues from households increased 64% y-o-y in ruble terms to R36bn (\$1.2bn) and accounted for 45% of total telecom revenues.

Mobile sector remains the most dynamic segment of the Russian telecommunications market. The number of cellular subscribers in Russia at the end of 1Q03 stood at 21.1mn people, an increase of 117% over the same period last year. Mobile penetration nationwide at the end of March was 14.5%, compared to 6.7% at the end of 1Q02.

As shown on the graph below, over the past twelve months regions have dramatically gained in importance as the key contributor to mobile subscriber base growth in Russia. This is not surprising, given much lower penetration levels outside of Moscow and significant pent up demand for cellular services. As of end-March, cellular penetration in the Moscow License Area (MLA) stood at 46.7%, compared to 8.8% outside the MLA and St. Petersburg. Thus,

Traditional operators vs. a1tnets



regional expansion of the «Big Three» - MTS, Vimpelcom, and Megafon - remains the key driver of cellular penetration in Russia. In 1Q03 the number of new subscribers in the regions was three times higher than net additions in the MLA (2.35mn vs. 0.77mn). The share of regional subscribers in the total subscriber base rose to 63%, from 54% at the end of 1Q02.

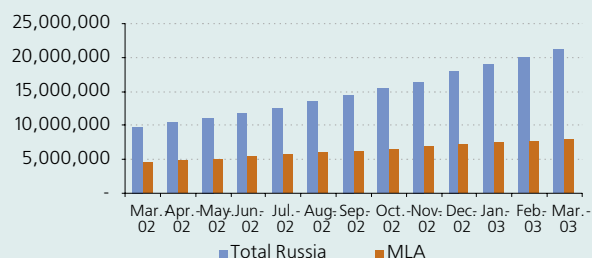
The Communications Ministry is forecasting the number of mobile subscribers in Russia to reach 28mn people (19% penetration) at the end of 2003, while independent analysts contend this number could exceed 30mn.

The number of Internet users in Russia at the end of March stood at approximately 9.9mn people, according to SpyLOG and J'son and Partners. About 44% of Internet users were located in Moscow and the Moscow region and another 10% in St. Petersburg and the Leningrad region. About 50% of the total Internet subscriber base was accessing the web from their homes. According to the Communications Ministry, total Internet traffic in Russia in 1Q03 rose 69% y-o-y to 212mn Mb - of this, 41% was transmitted via dedicated lines. The dial-up market also experienced high usage growth, with total connection time rising by 66% y-o-y to 1.7bn minutes.

Domestic investment in the telecom sector rose 34.3% y-o-y to R8.5bn in 1Q03. The bulk of this went into upgrading existing infrastructure and installing new lines, the latter increasing approximately 5% y-o-y to 23.6mn.

Over the same period, foreign investment in Russian telecom companies more than doubled in dollar terms to \$459.5mn; the bulk of this, however, was trade loans and other forms of financing.

**Cellular subscriber base
(March 2002 - March 2003)**



VALUE-ADDED SERVICES: BEST RECIPE FOR REVENUE ENHANCEMENT

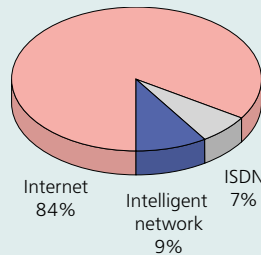
The development of value-added services (VAS), Internet, ISDN, multiservice networks, etc., has become a strategic priority for Svyazinvest operators. In the long term, given intensifying competition from cellular operators and telecom market liberalization at some point in the future, the ability to provide high quality integrated telecom services will become a major competitive advantage for traditional operators.

Value-added services still make up only a minor portion of regional operators' revenue (less than 10%). According to some estimates, they should see compound annual growth rates of 20% to 50% in the next three years, driven by the low level of Internet penetration and a shift to new technologies (like ADSL).

Internet

The pie chart below shows that the lion's share of value-added revenues is derived from Internet access. Of this, more than 95% comes from ordinary dial-up. The key revenue drivers for this segment will be growing Internet penetration in Russia (which, according to VTSIOM, is

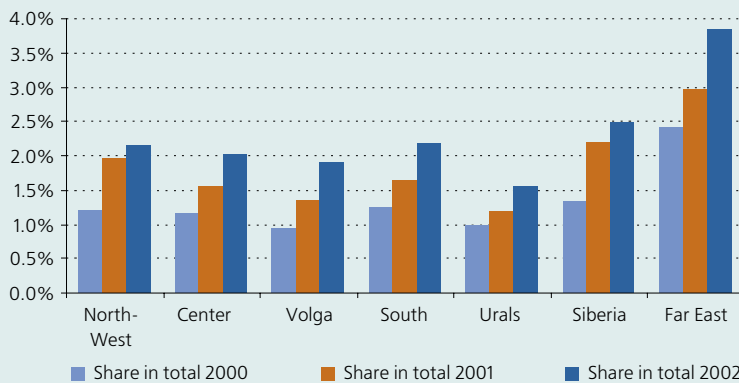
Composition of regional operators' VAS revenues



still low at about 6%) and rapidly increasing traffic volumes (69% y-o-y in 1Q03).

However, the average revenue per dial-up user (ARPU) is already coming under pressure, as high users are migrating to the broadband being aggressively rolled out by alternative operators. It is therefore crucial Svyazinvest operators develop transportation networks in order to offer more advanced Internet access services, such as ADSL. This is especially true considering that 46% of demand for Internet comes from corporate clients, who are interested in high-speed Internet access. Although the latter still remains expensive, prices have already demonstrated a capacity to drop fairly quickly (one of the

Share of Internet in total revenue



best examples of this being Tochka.ru in Moscow), which allows to expect demand to accelerate as critical mass is achieved.

At present, a meaningful ADSL presence has only been established in Moscow and St. Petersburg; in Nizhny Novgorod, Yekaterinburg and Novosibirsk the number of subscribers is incomparably smaller. However, in the next few years ADSL is likely to take the portion of revenues now occupied by ISDN.

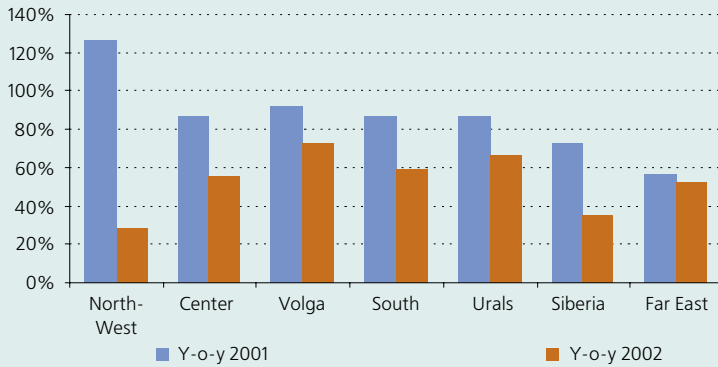
In the foreseeable future, subscriber base growth will remain the key driver of Internet revenue for the regional operators. Although, as can be seen from the graph below, the growth rates of Internet subscribers are slowing down, they still remain very high on the back of increasing PC penetration and rising population income.

ISDN

In the longer term, the prospects of this technology are unlikely to be bright in Russia due to the three factors that have inhibited its development elsewhere in the world (except perhaps Germany):

- * ISDN networks are based on channel switching, whereas it is now clear that next generation networks (NGN), or multiservice networks, will be packet-switched;
- * ISDN equipment has proven to be rather expensive; and
- * alternative technologies (such as ADSL) offer much higher access speed than ISDN's 144 Mbit/s.

Internet subscriber base growth: 2001-2002 (in \$ terms)



For the time being, however, existing ISDN networks could see further expansion due to the fact that most ISDN subscribers are valuable corporate clients.

Intelligent networks

Intelligent networks (IN) represent a very promising business due to their combination of high returns, high growth rates (50%+) and low incremental costs. They are aimed at maximizing revenue from the traditional voice segment by offering various paid services appealing to different types of customers. The most popular IN services are:

- prepaid cards-popular among individuals and corporate clients (SMEs);
- tele-voting-may become popular among corporate clients as it facilitates market research; and
- premium call rate-popular among private businesses and practitioners (lawyers, doctors).

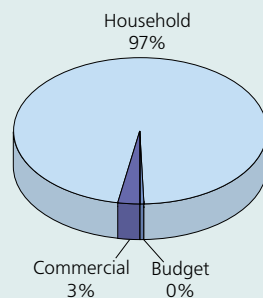
At present, IN services in Russia are almost exclusively represented by prepaid cards, which is why most IN revenue

comes from individual users. However, with the introduction of per-minute billing and the development of marketing techniques, IN services like free-phone should become increasingly popular. Among regional operators, IN services are being actively promoted by Uralsvyazinform and North-West Telecom.

Multiservice networks

Multiservice networks allow for the provision of both traditional voice and value-added services (VAS), ranging from broadband Internet access to digital TV. The first Svyazinvest operator to introduce a large-scale multiservice network was Center Telecom. Last November it launched a 400-kilometer-long multiservice network linking 25

Intelligent network revenue breakdown by type of customer



cities in the Moscow region. The network will enable the company to provide both traditional voice and so-called value-added services (VAS), ranging from broadband Internet access to digital TV. The company expects the project to break even in three years.

At the end of April, Volga Telecom also announced the launch of a multiservice network based on IP, ATM and MPLS technologies. The project was started in 2001, when Volga Telecom used Cisco Systems equipment to enhance its IP trunk network, entering the promising regional broadband market. In the second stage of the project, the company focused on the provision of high-speed Internet access through the ADSL technology. Volga Telecom has also built two ATM fiber-optic rings, on the basis of which a new generation IP fiber-optic network will be created.

Other companies developing pieces of a multiservice network in their region include Uralsvyazinform, Southern Telecom, and Sibir Telecom.

In sum, the development of value-added services holds out the prospect of significant revenue maximization for Svyazinvest operators. However, it is also vital that regional operators coordinate their capex outlays with the projected rate of VAS uptake, which should be based on strong market research. Construction of transportation networks should not become an end in itself, as neglecting end-user access may result in excess capacity that will not generate an adequate rate of return.

CALENDAR OF EVENTS¹

DATE	SVYAZINVEST	ROSTELECOM	CENTER TELECOM	NORTH-WEST TELECOM	VOLGA TELECOM
April 2003	Conference 'Tele-communications and Investment in Russia' Road Show New York & London Russian Economic Forum (London)		Road Show New York & London	Road Show New York & London	Road Show New York & London April 30 - Volga Telecom 1Q03 results
May 2003		Rostelecom 1Q03 results	Center Telecom 1Q03 results	North-West Telecom 1Q03 results	May 15 - Volga Telecom auditor's conclusion 2002 results
June 2003	Svyazinvest AGM	Rostelecom AGM	Center Telecom AGM	North-West Telecom AGM	Volga Telecom AGM
July 2003			Center Telecom 2002 results (IAS)	North-West Telecom 2002 results (IAS)	Volga Telecom auditor's conclusion 2002 results (IAS) Volga Telecom 1H03 results
August 2003	Svyazinvest 1H03 results	Rostelecom 1H03 results	Center Telecom 1H03 results	North-West Telecom 1H03 results	
Dalsvyaz 1H03 results Dividend's payments	September 2003				Corporate Governance Rating revision
	October 2003				
	November 2003	Svyazinvest 3Q03 results	Rostelecom 3Q03 results	Center Telecom 3Q03 results	North-West Telecom 3Q03 results
DATE	SOUTH TELECOM	URALSVYAZINFORM	SIBIR TELECOM	DALSVYAZ	
April 2003	Road Show New York & London Russian Economic Forum (London)	Road Show New York & London	Road Show New York & London April 30 - Sibir Telecom 1Q03 results	Road Show New York & London	
May 2003	South Telecom 1Q03 results	May 5 - Uralsvyazinform 1Q03 results Uralsvyazinform AGM	May 15 - Sibir Telecom auditor's conclusion 2002 results	Dalsvyaz 1Q03 results	
June 2003	June 5 - South Telecom AGM	Uralsvyazinform auditor's conclusion 2002 results (IAS)	Sibir Telecom AGM	Dalsvyaz 2002 results (IAS) June 25 - Dalsvyaz AGM	
July 2003	South Telecom 2002 results (IAS)		Sibir Telecom auditor's conclusion 2002 results (IAS) Sibir Telecom 1H03 results	Dalsvyaz 2002 results (IAS)	
August 2003	South Telecom 1H03 results	August 4 - Uralsvyazinform 1H03 results	Dividend's payments		
September 2003		Road-Show (Europe)			
October 2003	October 30 - Volga Telecom 3Q03 results			Sibir Telecom 3Q03 results	
November 2003	Dividend's payments	South Telecom 3Q03 results	November 5 - Uralsvyazinform 3Q03 results EGM Uralsvyazinform mega-region		
December 2003	Corporate Governance Ratings receiving Dalsvyaz 3Q03 results	2004 business plan	December 2003		

* All dates are the subject to further confirmation

HIGHLIGHTS OF SVYAZINVEST 1Q03 OPERATING AND FINANCIAL RESULTS

	North- West Telecom	Center Telecom	Volga Telecom	South Telecom	Ural- svyaz- inform	Sibir Telecom	Dalsvyaz	Consolidated companies, total	Ros- telecom	Svyaz- invest, total
Revenues, \$ 000	87 639	142 368	98 733	89 525	132 274	107 872	46 818	705 229	200 996	1 030 907
Ch. y-o-y	16%	19%	22%	18%	24%	20%	20%	20%	24%	20%
Operating costs, \$ 000	63 324	105 389	71 275	67 013	98 089	79 691	38 828	523 610	130 946	748 988
Ch. y-o-y	18%	19%	28%	17%	25%	15%	22%	20%	38%	23%
Operating profit, \$ 000	24 315	36 978	27 457	22 512	34 184	28 182	7 990	181 618	70 050	281 907
Ch. y-o-y	12%	17%	8%	23%	23%	34%	12%	19%	4%	13%
Operating margin	28%	26%	28%	25%	26%	26%	17%	26%	35%	27%
Net profit, \$ 000	10 445	12 041	14 535	10 370	11 664	13 789	3 309	76 154	39 423	130 075
Ch. y-o-y	8%	-9%	-5%	-69%	30%	39%	33%	-18%	0%	-9%
LT debt, \$ mn	48 491	109 124	67 584	48 709	95 916	26 865	7 882	404 572	220 137	624 709
Ch. y-o-y	14%	42%	203%	-16%	63%	-1%	137%	40%	-24%	-9%
DLD traffic per line, min (annualized)	345	464	455	490	583	466	451	464	-	437
Ch. y-o-y	11,6%	11,8%	16,4%	13,5%	16,1%	15,1%	18,3%	14,2%	-	12,6%
ILD traffic per line, min (annualized)	45	30	18	30	38	24	28	30	-	37
Ch. y-o-y	11,5%	10,9%	101,3%	-1,4%	-70,8%	40,5%	133,4%	459,8%	-	2,5%
Internet revenues, \$ 000	1 405	3 373	2 625	2 209	1 197	3 176	2 185	16 168	41	16 209
Ch. y-o-y	-11,5%	53,1%	82,6%	38,3%	-19,5%	45,8%	47,6%	35,1%	-15,4%	35%
Cellular revenues, \$ 000	375	2 458	923	0	9 168	1 725	1 346	15 996	-	15 996
Ch. y-o-y	-13,1%	11,7%	100,9%	-	43,5%	28,2%	71,9%	33,6%	-	34%
Average employees	29 778	70 062	49 721	41 279	35 334	47 449	18 247	291 871	30 660	322 531
Ch. y-o-y	-3%	-6%	-6%	-8%	-2%	-8%	-9%	-7%	-6%	-7%
Average lines (000)	3 372	5 720	3 915	3 323	3 182	3 469	1 099	24 081	23	24 104
Ch. y-o-y	4,4%	5,3%	6,0%	5,4%	9,6%	5,1%	6,3%	7,3%	-3,0%	7%
Revenue per line, \$ (annualized)	104	100	101	108	166	124	170	125	-	125
Lines per employee	113	82	79	81	90	73	60	83	-	83