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SVYAZ  INVEST

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

SVYAZINVEST

KONSTANTIN BELIAEV:
IAS REPORTING
IMPROVES THE QUALITY
OF OPERATIONS

OVERVIEW OF
SVYAZINVEST'S FINANCIAL
PERFORMANCE IN 1H03

REGIONAL TELECOMS -
2002 IAS FINANCIALS



Ladies and Gentlemen,

The Svyazinvest holding celebrated its eighth anniversary in September and the seven merged operators, which united scores of local operators into large inter-regional companies, celebrated their first. The new companies are busy now with their corporate restructuring and business unification. They are learning new ways to cooperate with one another, the parent company and the regional authorities. This requires much time and effort but the first results are already visible: the companies have increased their use of modern equipment, started building multi-service networks and growing their customer base; they are increasing the number of services offered and improving service quality for both the public and the corporate sector.

As a result, all of the Svyazinvest companies demonstrated an improved financial and operating performance in 2003. The holding's revenue stood at more than R67.5bn (~\$2.25bn) in 1H03, up 25%

y-o-y, and net income soared 64% to R9.5bn (~\$317mn). The number of lines increased by more than 1.5mn y-o-y.

Investors have shown their appreciation of our reorganization efforts: the market capitalization of the seven inter-regional companies has increased 70% through 10M03, while the holding's implied market capitalization has reached \$3bn.

The holding promotes itself among investors by participating in important sector events such as the Third International Exhibition, InfoCom, held simultaneously in Moscow, Nizhny Novgorod, Krasnodar, Yekaterinburg and Novosibirsk through September; the Communications Ministry sponsored the exhibition and the venues were connected by video- and Internet-conferencing.

Traditionally, the holding has been very broadly represented at the exhibition and the booths of Southern Telecom, Dalsvyaz, North-West Telecom, CenterTelecom, Uralsvyazinform, Sibirtelecom, VolgaTelecom, Center Telegraph and Rostelecom were testament to the increased competitiveness of the companies and the broad capacities of the merged operators to provide the public with modern telecom services.

We recently returned from Geneva where we visited one of the world's largest and most important telecom exhibitions, ITU Telecom World-2003, which is held every four years by the International Telecommunication Union. This time 918 companies participated, of which some 36 were from Russia. Among them were Svyazinvest, Rostelecom, Russian Post, leading scientific research institutes, educational establishments and large equipment producers, which have effectively become permanent members of the exhibition. These were accompanied by the important newcomers - Svyazinvest's seven inter-regional companies.

Introducing this new issue of the investor report I hope that confidence in the holding's companies is growing and that foreign specialists find our publication interesting.

Valery N. Yashin
Svyazinvest CEO

S&P assigns corporate governance rating to Sibirtelecom, VolgaTelecom, and Dalsvyaz

Standard & Poor's (S&P) rating agency has assigned Sibirtelecom a corporate governance rating of 5.7. The rating was made up of the following components: ownership structure and shareholder influence - 5.5, rights of interested parties and relations with them - 6.2, financial transparency and information disclosure - 6.3, board structure and procedures - 4.9.

S&P has assigned VolgaTelecom a corporate governance rating of 5.8. The rating was made up of the following components: ownership structure and shareholder influence - 5.8, rights of interested parties and relations with them - 6.5, financial transparency and information disclosure - 5.5, board structure and procedures - 5.3.

S&P has assigned Dalsvyaz a corporate governance rating of 5.3. The rating was made up of the following components: ownership structure and shareholder influence - 5.5, rights of interested parties and relations with them - 6.3, financial transparency and information disclosure - 4.7, board structure and procedures - 4.9.

S&P raises corporate governance ratings of Uralsvyazinform and North-West Telecom

S&P has raised Uralsvyazinform's corporate governance rating from 6.0 to 6.1. S&P believes the company has the best corporate governance practices among Russian fixed line operators.

S&P has raised North-West Telecom's corporate governance rating from 5.6 to 5.9. S&P believes the company has significantly improved its corporate governance practices over the last year and is now much higher than the average level at other Russian fixed line operators.

Southern Telecom

Rostovelectrosviaz, a subsidiary of Southern Telecom, has launched a municipal multi-service fiber-optic network that will enable the company to provide ASDL services. The project's cost was \$2mn.

Fitch raises ratings of Uralsvyazinform and Sibirtelecom

International credit rating agency Fitch has raised Sibirtelecom's senior unsecured rating from B to B+. The rating agency reiterated its short-term rating of B with a positive outlook.

Fitch has raised the senior unsecured rating of Uralsvyazinform from B to B+ with a positive outlook.

S&P assigned a long-term credit rating to Southern Telecom

S&P has assigned a long-term credit rating ruBBB to Southern Telecom. S&P also assigned the ruBBB rating

to Southern Telecom's senior unsecured R1.5bn bonds due in 2006.

Svyazinvest

Svyazinvest's AGM took place in Moscow on June 25, with shareholders approving the 2002 accounts and dividends of R50mn (\$1.6mn). Ernst & Young was approved as the company's auditor for 2003.

The company's new board includes Mr. Anoshkin, a member of the presidential administration, Mr. Antonyuk, first deputy communications minister, Mr. Viazalov, first deputy finance minister, Mr. Gusev, deputy property minister, Mr. David Geovanis, a Mustcom representative, Mr. Mitrofanov, deputy CEO of FAPSI, Mr. Stuart J. Paperin, executive director of the Soros Foundation, Mr. Reiman, communications minister, and Mr. Fatikov, deputy head of the Russian property fund.

VolgaTelecom

VolgaTelecom has signed an agreement with RTKomm.ru on broadband services envisaging all 11 branches of VolgaTelecom receiving broadband Internet access through RTKomm.ru's trunk network.

Uralsvyazinform

Uralsvyazinform and the Khanty-Mansy regional administration are planning to allocate R355mn (\$11.8mn) over the next three years to fund the development of telephone networks in rural areas. Uralsvyazinform will fund 70% of the amount, while the remaining 30% will come from the regional budget.

Sibirtelecom

Sibirtelecom's Kemerovo region subsidiary has launched the first phase of its regional multi-service network connecting all major cities in the region. The cost of the network's construction was R55mn (\$1.83mn). Next year the network will have been fully rolled out to cover all the company's subscribers.

Dalsvyaz

Dalsvyaz has signed a cooperation agreement with RTKomm.ru envisaging the latter's Far East distributors becoming the former's distributors. In exchange, Dalsvyaz will funnel its traffic to RTKomm.ru's network.

Rostelecom

Rostelecom and China's Huawei Technologies launched the commercial operation of the DWDM-network on the federal trunk line, Moscow-Samara, increasing Rostelecom's capacity several fold and eliminating bottlenecks in the Volga and Southern regions. Rostelecom may soon become the market leader for international transit traffic between Europe and Asia.

SVYAZINVEST HOLDS A DOMINANT POSITION IN THE RUSSIAN FIXED LINE TELECOM MARKET

Svyazinvest was incorporated in 1995 through the consolidation of controlling stakes in regional wireline telecoms.

Svyazinvest's charter capital is R19.5bn (\$617mn) and the company's shareholders are the Russian Property Ministry (50% plus one share), the Russian Federal Property Fund (25% minus one share) and a Cyprus-based consortium, Mustcom Ltd (25% plus one share).

The holding is made up of seven consolidated regional telecom companies. It also includes operators such as Center Telegraph, Lensvyaz, Dagsvyazinform, Komi Svyaz, MGTS, Kostromskaya GTS, the telecom research institute, Giprosviaz, and national DLD and ILD operator, Rostelecom.

The holding's operators own licenses and provide local, DLD and ILD services, data transfer, Internet, ISDN, wireless access and mobile telephony in GSM, NMT-450, AMPS and DAMPS standards. Svyazinvest owns more than 80% of the country's telecom infrastructure and more than 90% of telephone subscribers use its services. The installed capacity of the company's telephone switches is 31.2 mn numbers and the

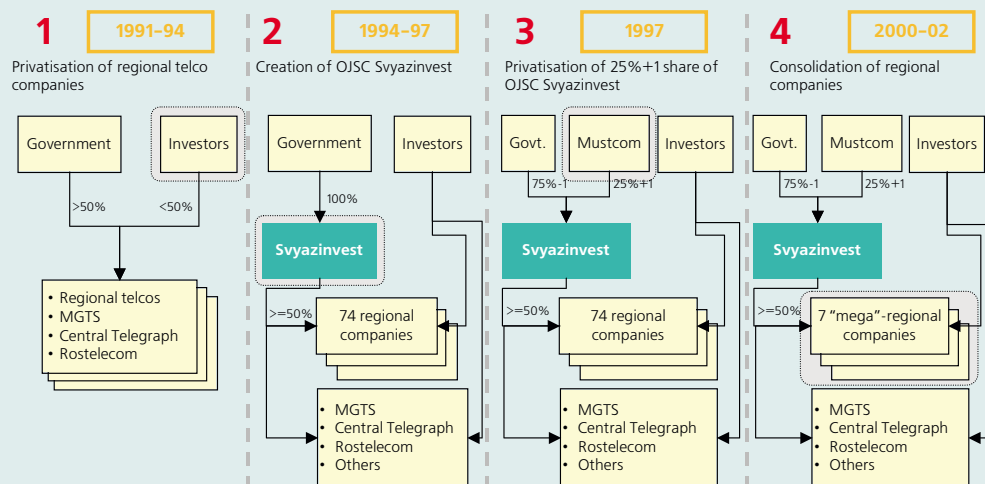
level of digitalization 37,5%. Svyazinvest companies employ 353,000 people.

The holding's subsidiary Rostelecom is the only Russian national ILD and DLD operator whose monopoly position is guaranteed by the government for the next few years. Today, Rostelecom has a reliable digital international network with a primary ILD and TV Center at its core, as well as seven international switches. Rostelecom provides international communication services to every corner of Russia. The company has direct access to 74 countries and participates in 25 international cable systems.

Svyazinvest has demonstrated steady revenue growth over the last few years and 2002 was no exception, with the operating companies showing strong financial and operating performances.

The holding has been carrying out a major reorganization of its subsidiaries since 2000. At the end of 2002, 72 small regional telecoms were merged into seven super companies: Center Telecom, North-West Telecom, Uralsvyazinform, Volga Telecom, Sibirtelecom, South Telecom and Dalsvyaz. The new operators are comparable with the largest European wireline operators in terms of operating scale and subscriber base.

Privatisation and restructuring process resulted in Svyazinvest keeping control over seven regional companies



Svyazinvest holding was created to control the government stakes in the regional telecommunications operators, being attractive investment vehicle for a strategic investor

COMMENTS & EVENTS

InfoCom-2003

The third annual exhibition «Russian Information and communications in the 21st century,» sponsored by the Communications Ministry and Russian Chamber of Commerce, was held simultaneously in Moscow, Nizhny Novgorod, Krasnodar, Yekaterinburg and Novosibirsk, through Sept. 9-13. More than 250 companies participated, occupying a total floor area of almost 9,000m².

The Svyazinvest holding was represented in the cities by its seven inter-regional companies,



Rostelecom and Central Telegraph, each demonstrating their prospective projects.

The presentations, conference and roundtable discussions during the exhibition allowed participants to discuss their experiences and look at likely developments in the information and communications world and find solutions by promoting the use of new technologies in various areas of human endeavor.

ITU Telecom World-2003

One of the world's largest and most important telecom exhibitions, ITU Telecom World-2003, was held in Geneva through Oct. 12-18. Among the VIPs at the huge Palexpo exhibition center for the opening ceremony were Swiss President Pascal Couchepin, the King of Spain, Juan Carlos I (who did the opening honors) and Secretary General of the International Telecommunication Union, Yoshio Utsumi.

The Russian pavilion, sponsored by Svyazinvest, the seven inter-regional companies and Rostelecom, was opened on Oct. 13. This was the first time Svyazinvest's inter-regional companies had taken part in the World Telecom exhibition and their top-managers met not only with journalists, analysts, and potential business-partners, but also signed several agreements. For instance, Center Telecom signed an agreement with Greece's Intracom to supply new radio relay equipment and radio access equipment to enable telephone installations in remote locations. The company also signed an agreement with Samsung to supply broadband multi-service network equipment.

Telecom professionals took much interest in Rostelecom's Europe-Asia project, whose importance is understandable given that by 2007 traffic volumes between Europe and Asia are expected to increase 10-fold, and existing underwater lines are unlikely to be able to meet that. Rostelecom, meanwhile, is able to carry traffic via its landlines due to its advantageous geographic reach and good technology.



AS REPORTING IMPROVES THE QUALITY OF OPERATIONS

Consolidated regional telecoms have completed their transition to IAS reporting. Konstantin Beliaev, Chief Accountant of Svyazinvest, talks about the significance of this move.



What is the significance of the introduction of IAS reporting?

The seven regional telecoms include 725 affiliated companies and subsidiaries. The results of the most important 150 companies from this universe are consolidated or reported in the form of equity participation.

For the first time this year a number of subsidiaries and affiliated companies reported their results to IAS. Consolidated accounts do not include any transactions made between group companies. The subsidiaries' reports have been compiled in a unified fashion.

For instance, Dalsvyaz owns a large subsidiary, Birobidjan Cellular, and two large affiliated companies, Far Eastern Cellular and Khabarovsk Cellular. In addition, the company includes other subsidiaries such as TeleRoss-Vladivostok, Kamalyaskom, Magalyaskom and Primtelefon, whose results also affect the consolidated financials. Incidentally, VolgaTelecom and Uralsvyazinform have more subsidiaries and affiliated

companies than any other inter-regional consolidated telecom.

Could you talk about the process of preparing a consolidated report?

The IAS report is a condensed version of RAS reports, which are very detailed. For instance, the group's unified report schedule includes more than 1,500 items. The detailed IAS schedule of fixed assets is compiled on the basis of RAS reports. Each of our 86 regional subsidiaries translated its RAS reports into IAS and these reports are subsequently consolidated on the inter-regional level. This approach helps us ensure the veracity and accuracy of the reported data. This is a complex and labor-intensive process which requires a lot of time.

What are the most important differences between RAS and IAS reports?

The main difference is their composition. There are also important differences in the reporting of depreciation, fixed assets, deferred income tax and bad debt. Besides, in line with IAS provisions, Russia until last year was deemed to have a high inflation economy, leading to the inflation indexation of all non-monetary items. There are also reporting differences in leasing agreements and LT financial investments; the report presentation format also differs.

Could you talk about the composition of the consolidated companies' IAS reports in 2002?

At present, their balance sheets include only data for the end of the reporting period; in other words, the reports do not contain any comparative data. But the lack of comparative data is understandable given the companies are very young, which

is why they published their balance sheets as of Dec. 31, while their profit and loss accounts covered the period from Jan. 1, 2002.

Besides, the reports will contain notes providing an insight into important parts of the reports and into the methods of reporting and consolidation. The notes will also cover contingencies and any events taking place after the reporting date.

How did Svyazinvest help the inter-regional companies develop their IAS reports?

Svyazinvest ensured a uniform approach to reporting and provided guidelines regarding methodology. The holding also controls this process and facilitates the exchange of information. Our site contains all the necessary methodology guidelines. We regularly hold conferences dedicated to IAS reports and work to correct any errors or miscalculations. Face to face contact between experts directly involved in the preparation of such reports plays an important role too.

The holding has organized centralized training in IAS reporting and we also ensure that the information provided by the inter-regional companies and the Group is comprehensive and complete.

Our control and auditing policy has dramatically changed over the last few years. For instance, in 1999 we worked with more than 60 different auditors; then in 2000 we held a closed tender in which more than 10 leading auditors took part. We selected six who were assigned to work with different regional telecoms. Thus, since 2001 we have installed a rigid auditing system where one international auditor is supported by several Russian ones. The audits of

regional subsidiaries are performed by Russian auditors, who provide their information to the international auditor.

Could you talk about the timeframe for the preparation of the reports?

The time is certainly too long for both potential investors and ourselves. Accounts are good only if they come out in a timely fashion because otherwise their market value diminishes quickly. However, the process of report preparation is a protracted and complicated one; it was especially difficult the first time when our people were compelled to analyze a large amount of different data. Besides, the inter-regional companies' executive bodies and control systems are not yet completely in place while the companies themselves have a general shortage of qualified people and procedures. Therefore, the process of report preparation was not exactly up to par this year, which was reflected in the long timeframe.

What quality standards are applied to the financial accounts?

The quality standards are becoming more stringent and the volume of reported information is growing every year. In 1999 our companies used only three methods to transform their Russian financial accounts to IAS. In 2000 we arranged training for staff from the 20 largest regional telecoms and in 2001 27 companies were able to come up with IAS reports on their own, also creating registrars of long-term assets under IAS. This year more than 100 companies came up with their IAS accounts based on their RAS reports following a simple transformation path. They also compiled 70 detailed fixed asset registrars. This exercise enabled us to undertake an international audit for the first time.

We have finished working with all the numeric data and completed

the audits, and companies have now started to release their financial accounts.

What was the auditors' opinion of the regional company accounts?

The auditor's reports contain several reservations. The first had to do with fixed assets. Because much of the fixed asset data was produced during privatization, it is not always possible to find and correctly reflect the historic value of each specific fixed asset. We have undertaken a lot of research in this area and found that fixed asset values do not require adjustment because they are below replacement value. The second reservation deals with the fact accounting of pension obligations does not comply with IAS standards. The current schemes, in which non-government pension funds are used, requires the company to reflect potential pension liabilities to its staff upon their retirement. In itself this would not have been a problem had it not required so much time to perform the actual computations. We have a shortage of resources, i.e. time and people, and have thus struggled to improve this situation.

Nevertheless, we plan to restore the value of fixed assets and undertake a revaluation. We will also help the inter-regional companies come up with a detailed depreciation accounting policy and work out a unified schedule of asset life. We will also automate the process of updating fixed asset registrars and produce uniform accounting methods on pension plan liabilities. We plan to perform actuary computations and reflect pension plan liabilities and expenditures in our reports.

What are your near-term plans in the on-going process of accounting and reporting?

We are planning to verify and eliminate all internal settlements among inter-regional companies.

We will once again review cross-shareholdings because we plan to release the consolidated accounts of the Group before the end of October.

In future we will focus on quality improvements in the areas identified by the auditors. In December we expect the half-year reports of inter-regional companies to be published, while their annual reports will follow in Aug. 2004. As a result, Svyazinvest consolidated accounts will also be released around September-October next year. We are planning to make sure that by 2004-2005 all the most important holdings' reports are prepared to IAS.

Do you think it is realistic to expect the holding to release IAS accounts in March or April rather than August?

This is certainly an important goal. However, because of the sheer number of affiliated companies and subsidiaries involved it is unlikely that we will be able to reduce the reporting timeline in the next few years. Moreover, the quality of our accounting systems and staff do not permit us to produce detailed quarterly reports. We need to learn to work with analytical and financial information. It is important to understand not only the network and equipment technology and specifics, but also market laws, marketing issues, demand management techniques and sales strategies. It is important to control the money spent on project implementation, the payback time and the benefits to the company in terms of market share. Only a sophisticated economic analysis can provide the insight on any change in plans that may be necessary to maximize returns. It is important for all of the companies to be on an equal footing in this regard as otherwise they will move forward only as fast as the slowest one.

REGIONAL TELECOMS - 2002 IAS FINANCIALS

In August-September 2003, Svyazinvest's seven enlarged regional telecoms released consolidated annual accounts (2002) to International Accounting Standards (IAS) for the first time ever. Until then, only select companies were reporting to IAS, which precluded investors from getting an objective picture of regional incumbents' financial performance. Therefore, the release of 2002 IAS accounts could truly be seen as a milestone in Svyazinvest's corporate history. From 2004, Svyazinvest operators plan to provide IAS financial statements on a semi-annual basis. Svyazinvest is planning for its seven regional operators to release 1H03 IAS statements in Dec. 2003, while 2003 audited IAS statements should be reported in Aug. 2004. In 2004-2005 Svyazinvest plans to switch to IAS as a basic reporting standard.

The publication of consolidated 2002 IAS accounts has helped dispel investor fears that RAS reports were painting too rosy a picture of regional incumbents' financial situation. While profitability at the EBITDA level came in lower to IAS than under RAS, due to more stringent treatment of operating expenses, the top line was higher for all incumbents due to the consolidation of subsidiaries not reported under RAS; indeed, some operators even saw higher net income to IAS than RAS.

IAS revenue boosted by subsidiaries' consolidation

The IAS top line figures of regional incumbents turned out to be as much as 14% higher (for Volga Telecom) than the RAS figure due to the consolidation of subsidiaries; under RAS, even fully-owned subsidiaries are not consolidated into the parent company's accounts.

Overall, however, the proportion of business done through subsidiaries was not large enough to radically change the revenue breakdown.

As can be seen, revenue from long distance and local services, both of which fall under tariff regulation, still contribute a major proportion of regional telecoms' top line. Uralsvyazinform, at 65%, has the lowest dependence on conventional voice service revenue, Sibirtelecom is next with 71% and Volga Telecom third with 73%. North-West Telecom has the highest exposure to revenues from local and long-distance calls, with 88%.

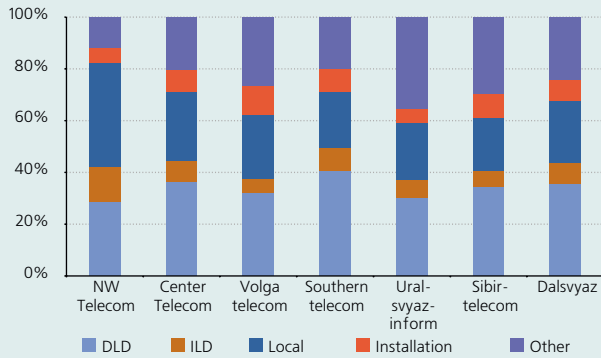
Uralsvyazinform's proportion of non-tariff regulated revenues is primarily due to its exposure to cellular services, which contributed 21% to its top line in 2002, the highest share of all regional incumbents. Uralsvyazinform is followed by Volga Telecom,

2002 highlights of 7 mega-regional companies financial results

In \$mn	North-West telecom			Center telecom			Volga telecom		
	IAS	RAS	IAS vs RAS	IAS	RAS	IAS vs RAS	IAS	RAS	IAS vs RAS
Revenues	326.3	321.9	1%	528.8	522.8	1%	399.2	349.8	14%
«Operating expenses, including» deprecitaion	290.4	237.4	22%	483.2	387.0	25%	329.6	248.7	33%
Operating income	35.9	84.5	-57%	45.6	135.8	-66%	69.7	101.1	-31%
EBITDA	88.4	109.5	-19%	150.7	171.9	-12%	127.3	133.5	-5%
Pretax income	25.6	25.9	-1%	1.4	48.5	-97%	68.6	63.5	8%
Income tax expense	10.9	11.1	-2%	1.3	17.2	-93%	35.8	16.5	116%
Net income before minority interest	14.6	na	na	2.7	na	na	32.8	na	na
Minority interest	0.0	na	na	0.2	na	na	5.1	na	na
Net income	14.6	10.4	40%	2.4	31.3	-92%	27.7	47.0	-41%
EBITDA margin	27%	34%	-7%	29%	33%	-4%	32%	38%	-6%
Net margin	4%	3%	1%	0%	6%	-6%	7%	13%	-6%

Source: Company data

Revenue breakdown under IAS, 2002



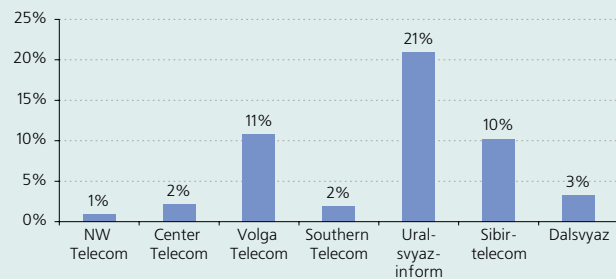
Source: Company data

11% of revenue from mobile services, and Sibirtelecom, with 10%. All three companies are noticeable GSM players in their respective local markets, and Svyazinvest plans to foster their cellular business development going forward.

Profitability lower due to different cost treatment.

The operating profitability of Svyazinvest operators to IAS was lower than under RAS, mainly due to a higher depreciation charge, which in some cases was nearly three times that recorded to RAS

Proportion of cellular revenues in regional telecoms' top line, IAS



Source: Company data

(for Center Telecom) due to IAS having a shorter depreciation schedule than RAS. The degree to which IAS operating income was lower than the RAS figure varied from company-to-company - from about 30% lower for Uralsvyazinform and Volga Telecom to 66% for Center Telecom.

Looking at the companies' IAS figures net of the depreciation effect, one can see that the EBITDA margins of regional incumbents were also lower than under RAS. This, however, was due to the

fact that IAS classifies bad debt provision and losses on disposal of property, plant and equipment (PP&E) as operating expenses, while RAS does not (in RAS statements these items show up below operating income as «other expenses»). Moreover, RAS treats only operating taxes as operating expenses, while IAS includes in this category all taxes other than income, thereby increasing operating expenses.

Overall, the relative profitability profile of regional incumbents to IAS

Southern Telecom			Uralsvyazinform			Sibirtelecom			Dalsvyaz		
IAS	RAS	IAS vs RAS	IAS	RAS	IAS vs RAS	IAS	RAS	IAS vs RAS	IAS	RAS	IAS vs RAS
359.4	337.1	7%	535.2	471.9	13%	423.1	389.5	9%	171.3	170.1	1%
332.4	251.0	32%	447.5	348.7	28%	352.8	300.9	17%	159.2	139.9	14%
74.3	17.6	322%	72.6	43.8	66%	44.9	23.9	88%	19.7	7.6	160%
27.0	86.0	-69%	87.6	123.2	-29%	70.3	88.6	-21%	12.1	30.1	-60%
101.3	103.6	-2%	160.2	167.0	-4%	115.2	112.5	2%	31.8	37.7	-16%
58.0	73.3	-21%	61.4	44.5	38%	54.8	29.2	88%	9.6	12.4	-22%
23.5	23.4	0%	24.0	14.9	61%	26.7	14.1	89%	-7.4	6.5	-214%
34.5	na	na	37.4	na	na	28.2	na	na	2.2	na	na
2.9	na	na	2.3	na	na	5.8	na	na	0.0	na	na
31.6	49.8	-37%	35.1	29.5	19%	22.4	15.1	48%	2.2	5.9	-62%
-6%	31%	-37%	30%	35%	-5%	27%	29%	-2%	19%	22%	-16%
9%	15%	-6%	7%	6%	0%	5%	4%	1%	1%	3%	-2%

Regional telecoms' 2002 IAS summary, \$mn

	North-West Telecom	Center Telecom	Volga Telecom	Southern Telecom	Ural-svyaz-inform	Sibir-telecom	Dalsvyaz
Revenues	326.3	528.8	399.2	359.4	535.2	423.1	171.3
Operating expenses, including	-290.4	-483.2	-329.6	-332.4	-447.5	-352.8	-159.2
Depreciation	-52.4	-105.2	-57.7	-74.3	-72.6	-44.9	-19.7
Operating income	35.9	45.6	69.7	27.0	87.6	70.3	12.1
EBITDA	88.4	150.7	127.3	101.3	160.2	115.2	31.8
Interest expense	-7.9	-23.3	-5.7	-10.1	-20.9	-10.0	-2.5
Pretax income	25.6	1.4	68.6	58.0	61.4	54.8	9.6
Income tax expense	-10.9	-1.3	-35.8	-23.5	-24.0	-26.7	-7.4
Net income before minority interest	14.6	2.7	32.8	34.5	37.4	28.2	2.2
Minority interest	0.0	-0.2	-5.1	-2.9	-2.3	-5.8	0.0
Net income	14.6	2.4	27.7	31.6	35.1	22.4	2.2
EBITDA margin	27.1%	28.5%	31.9%	28.2%	29.9%	27.2%	18.6%
Operating margin	11%	9%	17%	8%	16%	17%	7%
Net margin	4%	0%	7%	8%	7%	5%	1%
Operating cash flow	73.5	104.0	119.5	61.8	91.1	78.3	21.8
Free cash flow	6.8	-7.5	-1.7	-13.7	-30.2	8.3	6.6
Operating cash flow yield	23%	20%	30%	17%	17%	19%	13%
Capex	-66.7	111.5	121.2	75.5	121.3	69.9	15.2
Capex/Sales	20%	21%	30%	21%	23%	17%	9%
EBIT/Interest coverage	4.6	2.0	12.3	2.7	4.2	7.0	4.8
Debt/Equity	0.18	0.43	0.20	0.32	0.46	0.32	0.10
Debt	76.8	187.4	82.1	125.7	257.7	95.7	18.6
Interest rate	-10%	-12%	-7%	-8%	-8%	-10%	-14%

Source: Company data

was similar to that under RAS. Volga Telecom confirmed its status as the most profitable company, boasting the highest IAS EBITDA margin of 32% - better than Uralsvyazinform's, 30% - despite the fact it receives a smaller proportion of revenue from the highly profitable cellular business. Volga Telecom also demonstrated the highest operating cash flow yield, which is one of the key metric for gauging regional telecoms' performance.

IAS net income higher than RAS for some companies.

The IAS net income figure for some companies was higher than under RAS, belying investor fears that Svyazinvest operators' RAS

figures overstated their bottom lines. In fact, the gap between RAS and IAS significantly narrowed after Svyazinvest operators moved social expenses into costs and introduced bad debt provisions in 2001-2002 (previously these expenses were charged to reported net income). Moreover, bad debt provisions under RAS in 2002 were significantly higher than in 2001, as it was the first year when debt provisions were formed, hence a massive write-off of bad debts accrued was undertaken.

In addition the consolidation of mobile and value-added subsidiaries shored up the net income performance of regional operators under IAS.

Some companies demonstrated positive free cash flow.

Three Svyazinvest operators - Sibirtelecom, North-West Telecom, and Dalsvyaz - demonstrated positive free cash flow to IAS in 2002. However, this positive sign was primarily due to lower capex allocations at these companies. Capital expenditure accounted for 17% of Sibirtelecom's sales, 20% at North-West Telecom and 9% at Dalsvyaz, compared with 30% for Volga Telecom and 23% for Uralsvyazinform. It should be noted that the company with the highest capex/sales ratio among Svyazinvest operators, Volga Telecom, was nevertheless close to the black at the FCF level, posting negative free cash flow of \$1.7mn.

INTERNATIONAL LISTING IS AN IMPORTANT LONG-TERM GOAL

In the wake of regional telecoms' consolidation, which produced seven large companies capable of attracting investor interest, it has become essential for Svyazinvest to raise its market capitalization by obtaining listings on international stock exchanges.

International listings will enable the companies to:

- Improve access to capital and reduce borrowing costs;
- Implement modern corporate governance practices and strengthen their reputations by adhering to high disclosure standards; and
- Raise their visibility and improve investor access.

Svyazinvest, together with an international legal consortium, has undertaken a pre-listing analysis of the inter-regional companies to determine their compliance with the requirements of international stock exchanges. Based on this analysis, lawyers are expected to draw up working plans for each company's path to listing.

Investor confidence is a pre-requisite to gaining access to international stock markets, and for the last three years Svyazinvest has treated the promotion of investor relations as one of its strategic priorities. Investor relations programs have been discussed and signed off on by the boards of all inter-regional companies on an annual basis since 2001. As a result of these programs:

- English-language sites have been created for all inter-regional companies;

- Inter-regional companies have started to prepare IAS accounts;
- Inter-regional companies have engaged in on-going investor relations activities (road shows, telephone conferences, round-table discussions); and
- The operations of inter-regional companies have been regularly publicized (quarterly publication of corporate profiles, analytical reviews and Q&A sessions with analysts and investors).

Svyazinvest has also enlisted the services of professional advisors to implement investor relations programs.

In order to streamline investor relations and showcase the companies to the investment community, an English advisory firm was engaged in Sept. 2003 to review the consolidated companies' IR and PR activities/policies. The goal was to identify the weak spots and streamline the consolidated companies' investor and public relations in order to bring them up to international standards and develop a unified approach.

Svyazinvest, together with one of Russia's leading investment and consulting firms, is also undertaking a comprehensive survey of the merged companies to prepare memoranda in Russian and English providing a comprehensive (and relevant) overview of each company for the investment community.

The most important goal of the merged companies is to adhere

to the highest international corporate governance practices, and to this end Center Telecom and North-West Telecom this year created corporate governance board committees; meanwhile, Southern Telecom is working towards creating such a committee and Sibirtelecom has instituted the post of corporate secretary for this purpose. The companies also operate under high levels of transparency and provide detailed information disclosure.

The most important goal of Svyazinvest through 2010 is to build efficient, market-oriented companies offering the entire spectrum of telecom services in order to make them attractive to the investment community.

Streamlining investor relations and obtaining international listings for the merged companies are important steps towards this goal and include the following activities:

- Reducing delays in the release of IAS accounts, initiating half-year IAS reports and gradually moving completely to IAS reporting;
- Upgrading the English-language sites of the merged companies and producing content relevant to investors;
- Creating corporate governance board committees and the post of corporate governance secretary at all the merged companies; and
- Restructuring non-core assets.

OVERVIEW OF SVYAZINVEST'S FINANCIAL PERFORMANCE IN 1H03

Svyazinvest operators demonstrated reasonably strong 1H03 top line growth of 24% y-o-y to R67.5bn (\$2.2bn), due to significantly higher long-distance traffic and a local tariff hike, up an average 28.8% since Jan. 1, 2003.

Regional telecoms' 1H03 EBITDA was up 33.5% y-o-y to R21.7bn (\$720mn) and the EBITDA margin rose from 30% to 32%.

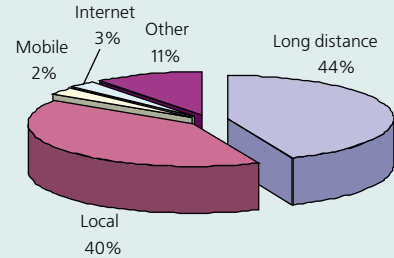
The operating expenses of all operators bar Center Telecom outperformed earnings growth. At Rostelecom the situation was especially serious with a 48.1% y-o-y increase in costs due mostly to the introduction of a new accounting system for transactions with international operators. After adjustments, Rostelecom's costs were 3.3% higher.

Local services' revenue share in regional telecoms' top line increased by 1%, while the share of long-distance earnings fell 3%; meanwhile, Internet revenue demonstrated a high growth rate, and its contribution to the top line rose from 2% to 3%. In addition, companies saw an increased proportion of revenue from interconnect and traffic transit.

Higher revenues enabled the companies to expand their capex programs, which were boosted 38% y-o-y to more than R12bn (\$400mn). Most of the capex was associated with the construction of multi-service networks, capacity expansion and digitization.

Upon completion of the consolidation of regional operators, international credit rating

Regional operators' revenue breakdown, 1H03



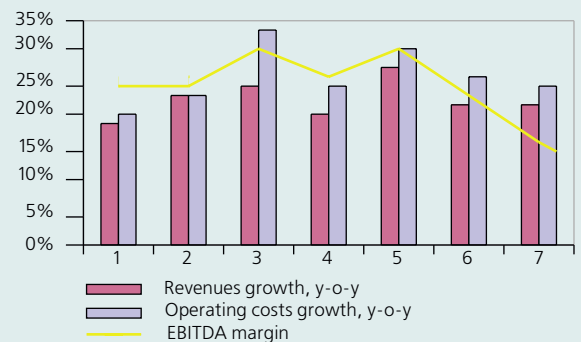
agencies Standart & Poor's and Fitch upgraded the merged companies' credit ratings. The only company whose rating remained unchanged was Dalsvyaz, though it is also expected to be upgraded in the near future. The upgrade became possible following the evaluation of the effects of consolidation, which strengthened the market positions and business fundamentals of the merged companies. Rating upgrades will clearly benefit the companies, enabling them for instance to lower the cost of debt.

The consolidation also enabled the companies to optimize their cost structures and reduce expenses. Specifically, the companies switched to centralized equipment buying which helps not only in terms of equipment unification but also in terms of lowering contract costs through bulk purchases. The consolidation of the regional operators will also greatly enhance their operating efficiencies and help reduce administrative and management costs.

Credit ratings of consolidated companies

	Current rating	Previous rating	Date	Outlook	Rating Agency
VolgaTelecom	B, ruA-	B-	1.02.03	Stable	S&P
Dalsviaz	B-	B-	29.08.02	Stable	Fitch
North-Western Telecom	B-, ruBBB	CCC, ruBB	28.03.03	Stable	S&P
Sibirtelecom	B+	B	14.05.03	Positive	Fitch
Uralsviazinform	B+	B	14.05.03	Positive	Fitch
CenterTelecom	B	B-	2.04.03	Stable	S&P
South Telecom	CCC+	CCC	3.04.03	Stable	S&P
	B-	CCC+	2.04.03	Stable	S&P

Regional telecoms operating highlights, 1H03



OVERVIEW OF THE RUSSIAN TELECOMMUNICATIONS MARKET IN 1H03

The Russian telecom sector is continuing to grow faster than the economy as a whole, up 39.1% y-o-y to R175bn (\$4.6bn) in 1H03, compared to nominal GDP growth of 22.1%. The sector's revenue increase was driven primarily by local tariff hikes and long-distance volume growth; while revenue from local services grew faster than long-distance, resulting in their top line contributions becoming almost equal.

New entrants have demonstrated considerably higher growth rates than incumbents, with the former's market share rising to 55.7% in 1H03 (49.5% in 1H02); their share of local services is also growing, with the proportion of revenue increasing from 40% to 46% in 1H03.

Internet and intelligent services and ISDN demonstrated particularly high growth rates, and despite these segments' share of total revenue still being relatively small, the growth rates (1.7-2.3 times) seen were still very impressive. The number of Internet users increased 2.2 times in 1H03, with Internet development helped by the introduction of public access points at post offices.

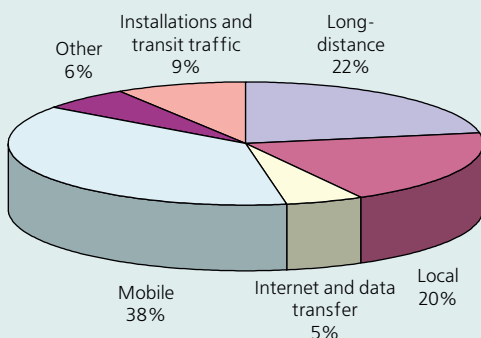
The share of new operators' capex was 39.3% in 1H03, while total investment reached R23.4bn (\$780mn) (+29.4% y-o-y). A total R19.3bn (\$640mn) worth of new fixed assets were commissioned (+48.8%

y-o-y) with more than half (52.6%) by new operators. Meanwhile, some 8.2mn new cell numbers came online in 1H03 (+78% y-o-y). Much attention has been paid to regional telecom development, with twice the number of radio relay lines commissioned in 1H03 compared to 1H02, though the share of cable lines and automatic long-distance switches dropped to 31% y-o-y and 45% y-o-y, respectively.

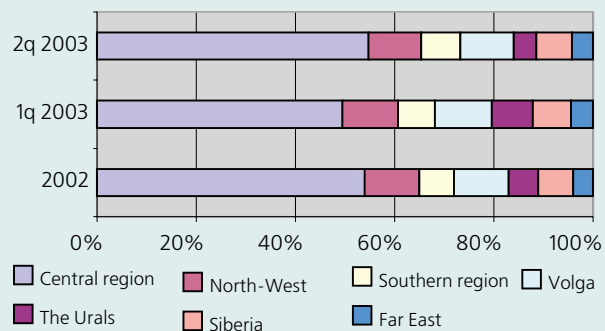
Mobile operators retained their leadership positions in terms of growth rates, with mobile revenue increasing 66.4% to R60.4bn (\$2.01bn). The share of mobile revenue in total sector earnings rose to 38% vs. 37% a year ago. The new holding SkyLink created on the basis of Uralvestcom, Delta Telecom and MSS, and developing a new standard IMT-MC 450, recently started regional expansion in addition to the Big Three companies (MTS, Vimpelcom and Megafon), which use the GSM standard.

In terms of regional revenue breakdown, the Central region was first, followed by the North-West region, due to the high concentration of demand for telecom services in Moscow and St. Petersburg. However, with growing mobile penetration and the development of new services, the share of the Central region is expected to contract slightly in favor of the Urals and Volga regions.

Telecom revenue breakdown by segments, 1H03



Regional telecom revenue breakdown



CALENDAR OF EVENTS*

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 - VolgaTelecom 1Q03 results
May 2003		Rostelecom 1Q03 results	CenterTelecom 1Q03 results	North-West Telecom 1Q03 results	May 15 - VolgaTelecom auditor's conclusion 2002 results
June 2003	Svyazinvest AGM	Rostelecom AGM	CenterTelecom AGM	North-West Telecom AGM	VolgaTelecom AGM
July 2003			CenterTelecom 2002 results (IAS)	North-West Telecom 2002 results (IAS)	VolgaTelecom auditor's conclusion 2002 results (IAS) VolgaTelecom 1H03 results
August 2003	Svyazinvest 1H03 results	Rostelecom 1H03 results	CenterTelecom 1H03 results	North-West Telecom 1H03 results	
September 2003				Corporate Governance Rating revision	
October 2003					October 30 - VolgaTelecom 3Q03 results
November 2003	Svyazinvest 3Q03 results	Rostelecom 3Q03 results	CenterTelecom 3Q03 results	North-West Telecom 3Q03 results	Dividend's payments
December 2003		2004 business plan	2004 business plan	2004 business plan	2004 business plan

DATE	SOUTHERN TELECOM	URALSVYAZINFORM	SIBIRTELECOM	DALSVYAZ
April 2003	Road Show New York & London Russian Economic Forum (London)	Road Show New York & London	Road Show New York & London April 30 - Sibirtelecom 1Q03 results	Road Show New York & London
May 2003	Southern Telecom 1Q03 results	May 5 - Uralsvyazinform 1Q03 results Uralsvyazinform AGM	May 15 - Sibirtelecom auditor's conclusion 2002 results	Dalsvyaz 1Q03 results
June 2003	June 5 - Southern Telecom AGM	Uralsvyazinform auditor's conclusion 2002 results (IAS)	Sibirtelecom AGM	Dalsvyaz 2002 results (IAS) June 25 - Dalsvyaz AGM
July 2003	Southern Telecom 2002 results (IAS)		Sibirtelecom auditor's conclusion 2002 results (IAS) Sibirtelecom 1H03 results	Dalsvyaz 2002 results (IAS)
August 2003	Southern Telecom 1H03 results	August 4 - Uralsvyazinform 1H03 results Dividend's payments		Dalsvyaz 1H03 results Dividend's payments
September 2003	Road-Show (Europe)			
October 2003			Sibirtelecom 3Q03 results	
November 2003	Southern Telecom 3Q03 results	November 5 - Uralsvyazinform 3Q03 results EGM Uralsvyazinform mega-region		Corporate Governance Ratings receiving Dalsvyaz 3Q03 results 2004 business plan
December 2003	Southern Telecom provisional 2003 results 2004 business plan	December 20 - Uralsvyazinform provisional 2003 results 2004 business plan	2004 business plan	

* All dates are the subject to further confirmation

HIGHLIGHTS OF SVYAZINVEST IH03 OPERATING AND FINANCIAL RESULTS

	North- West Telecom	Center Telecom	Volga Telecom	Southern Telecom	Ural- svyaz- inform	Sibir- telecom	Dalsvyaz	Consolidated companies, total/average	Ros- telecom	Svyaz- invest, total
Revenues, \$ 000	180 816	298 034	203 385	187 158	279 729	221 698	96 528	1 467 348	414 109	1 881 458
Ch. y-o-y	19%	23%	24%	21%	28%	22%	22%	23%	29%	24%
Operating costs, \$ 000	133 360	220 328	151 175	144 131	202 526	172 962	80 962	1 105 443	279 154	1 384 598
Ch. y-o-y	20%	22%	31%	23%	28%	22%	25%	24%	47%	28%
Operating profit, \$ 000	47 456	77 707	52 210	43 026	77 204	48 736	15 566	361 905	134 955	496 860
Ch. y-o-y	18%	26%	8%	14%	28%	20%	9%	20%	3%	15%
Operating margin	26%	26%	26%	23%	28%	22%	16%	25%	33%	26%
Net profit, \$ 000	20 628	26 021	25 351	21 548	29 446	20 827	6 847	150 667	102 527	253 195
Ch. y-o-y	144%	96%	28%	-38%	96%	142%	-	51%	101%	68%
LT debt, \$ mn	27 694	112 699	69 541	65 083	111 200	38 539	12 841	437 597	275 177	712 774
Ch. y-o-y	-34%	10%	163%	42%	-11%	32%	65%	15%	20%	17%
DLD traffic per line, min (annualized)	346	451	455	491	550	460	450	457	-	457
Ch. y-o-y	10,7%	9,4%	14,9%	14,1%	13,8%	13,7%	17,8%	12,9%	-	12,9%
ILD traffic per line, min (annualized)	47	30	18	30	36	24	29	30	-	30
Ch. y-o-y	10,8%	10,0%	5,3%	2,4%	3,8%	5,4%	19,3%	7,5%	-	7,5%
Internet revenues, \$ 000	5 299	7 134	5 725	4 756	5 152	6 811	4 532	39 409	76	39 485
Ch. y-o-y	60,5%	43,2%	81,7%	33,4%	59,6%	42,3%	44,4%	50,7%	-14,4%	50%
Cellular revenues, \$ 000	743	5 163	1 985	-	20 363	3 878	2 798	34 930	-	34 930
Ch. y-o-y	-16,3%	9,3%	86,7%	-	47,0%	36,0%	60,3%	39,0%	-	39%
Average employees	29 541	70 001	49 483	41 187	35 318	47 341	18 253	291 123	29 222	320 345
Ch. y-o-y	-3%	-5%	-5%	-6%	-2%	-7%	-8%	-5%	-9%	-5%
Average lines (000)	3 380	5 751	3 941	3 344	3 223	3 490	1 105	24 233	25	24 259
Ch. y-o-y	4,4%	5,3%	6,1%	5,6%	10,1%	5,2%	6,3%	6,0%	-2,3%	6%
Revenue per line, \$ (annualized)	107	104	103	112	174	127	175	121	-	121
Lines per employee	114	82	80	81	91	74	61	83	-	83

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