

OJSC CenterTelecom

Audit Report on Financial Statements for the Year Ending December 31, 2007

March 2008

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007
Comparative data (RUR thousand unless otherwise stated)

AUDIT REPORT - OJSC CENTERTELECOM

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**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS OF
CENTERTELECOM OJSC**

To the shareholders of OJSC CenterTelecom

DETAILS OF THE AUDITING FIRM

Name: ERNST AND YOUNG LLC

Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1

Certificate of an entry made to the Uniform State Register of Legal Entities Concerning a Legal Entity Registered Before July 1, 2002; date of entry: December 05, 2002, series 77, No. 007367150, registered by the Moscow Registration Chamber State Institution on June 20, 2002, No. 108.877, Main Registration No. 1027739707203.

Audit License No. E002138, approved by Order No. 223 of the Russian Ministry of Finance dated September 30, 2002 for a term of five years, prolonged by Order No.573 of the Russian Ministry of Finance dated September 17, 2007 until September 30, 2012.

Membership of an accredited professional auditors' association - ERNST & YOUNG LLC is a member of Non-profit Partnership «The Institute of Professional Accountants of Russia» («IPAR»).

INFORMATION ABOUT THE ENTITY AUDITED

Name: OJSC CenterTelecom

Address: 23 Proletarskaya str., Khimki, Moscow Region, 141400.

State Registration: No. 1025006174710 of November 01, 2002, by the Moscow Regional Registration Chamber.

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007

Comparative data (RUR thousand unless otherwise stated)

We have audited the accompanying financial statements of OJSC CenterTelecom for the period from 1 January through 31 December, 2007, which are comprised of the balance sheet and the statement of income, changes in the shareholders' equity, cash flows, and the related appendix to the balance sheet and the explanatory notes to the financial statements, inclusive of sections 3 – 9, 10.2 – 10.7. The management of OJSC CenterTelecom is responsible for the compliance of accounting procedures, preparation and presentation of these financial statements. Our responsibility is to express an opinion on the fairness, in all material respects, of these statements and on compliance of accounting procedures insofar as they relate to the preparation of financial statements in accordance with the legislation of the Russian Federation based on our audit.

We conducted our audit in accordance with the Federal Law on Auditing Activity, the Federal Rules (Standards) on Auditing, the Rules (Standards) for Auditing Activities, as approved by the Committee on Auditing Activity under the President of the Russian Federation, and International Standards on Auditing.

The audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatements. The audit was performed on a selective basis and included an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements concerning the financial and business operations of the audited entity; assessing the compliance with accounting principles and rules used in the preparation of financial statements, and significant estimates made by management of the audited entity; as well as the evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the fairness, in all material respects, of these financial statements and on compliance of accounting procedures insofar as they relate to the preparation of financial statements in accordance with the legislation of the Russian Federation.

In our opinion, the accounting procedures at OJSC CenterTelecom insofar as they relate to preparation of financial statements in 2007 complied with the requirements of Federal Law on Accounting No. 129-FZ of November 21, 1996, in all material respects, and the aforementioned financial statements referred to above have been prepared in accordance with the aforementioned Law and present fairly, in all material respects, the financial position of OJSC CenterTelecom as of 31 December, 2007 and the results of its operations for the period from 1 January through 31 December, 2007 in accordance with regulations of the Russian Federation insofar as they relate to the preparation of financial statements.

The accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Russian Federation. Accordingly, the accompanying financial statements are not designed for those who are not informed about accounting principles, procedures and practices in the Russian Federation.

28 March, 2008

Elena Chikisheva,
Partner,
Auditor's qualification certificate No. K 001489
Extended on 06 November, 2002, for indefinite term

Irina Arkhipova,
Engagement manager
Auditor's qualification certificate No. K 028123
Issued on 24 January, 2008, for indefinite term

Central Telecommunication Company OJSC
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Comparative data (RUR thousand unless otherwise stated)

BALANCE SHEET

Form # 01 according to OKUD

			CODES
			0710001
as of	December 31, 2007	Date (year, month, day)	2007.12.31
Organization	OJSC CenterTelecom	OKPO	01140111
Taxpayer Identification Code	5000000970	TIC	5000000970
Type of activity	telecommunications services	OKVED	64.20
Legal status/ form of ownership	open joint stock company/ mixed	OKOPF/OKFS	47/31
Unit of measure	RUR in thousands	OKEI	384
Address	Bld.2, 6, Degtiarny per., Moscow, 125993		

Date of approval

Date of sending (receipt)

ASSETS	Notes	Indicator code	Line code	As of the beginning of the reporting period	As of the end of the reporting period
1	1a	2	2a	3	4
I. NON-CURRENT ASSETS					
Intangible assets		110	110	1 409	1 137
Fixed assets	5.1.	120	120	31 482 470	33 288 904
Construction in progress	5.2.	130	130	2 241 669	1 550 389
Income bearing investments in tangible assets		135	135	1 447	1 450
Long-term financial investments		140	140	1 672 181	963 894
<i>including:</i>					
investments in subsidiary companies	5.3.		141	551 053	548 801
investments in associated companies	5.3.		142	25	25
investments in other organizations	5.3.		143	26 709	25 728
other long-term financial investments	5.4.		144	1 094 394	389 340
Deffered tax assets	5.5.	145	145	408 884	368 606
Other non-current assets	5.6.	150	150	4 225 126	5 071 582
Total section I		190	190	40 033 186	41 245 962

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Explanatory Notes to Financial Statements for 2007
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ASSETS	Notes	Indicator code	Line code	As of the beginning of the reporting period	As of the end of the reporting period
1	1a	2	2a	3	4
II.CURRENT ASSETS					
Inventories		210	210	1 208 529	1 034 453
<i>including:</i>					
raw materials, consumables и other similar assets	5.7.	211	211	525 721	515 606
work in progress (distribution costs)		213	213	50	13
finished products and goods for resale		214	214	18 828	49 684
dispatched goods		215	215	530	604
prepaid expenses		216	216	663 400	468 546
other inventories and costs		217	217		
VAT on purchased assets	5.8.	220	220	903 879	591 412
<i>including:</i>					
payments expected in over 12 months after the reporting date			221	213 796	91 723
payments expected within 12 months after the reporting date			222	690 083	499 689
Accounts receivable (where settlement is expected in over 12 months after the reporting date)		230	230	7 717	2 778
<i>including:</i>					
trade receivables		231	231		
advances given			232		
other debtors			233	7 717	2 778
Accounts receivable (where settlement is expected within 12 months from the reporting date)		240	240	3 114 997	3 520 990
<i>including:</i>					
trade receivables	5.9.	241	241	2 360 116	2 682 952
advances given	5.10.		242	116 725	265 151
other debtors	5.11.		243	638 156	572 887
Short-term financial investments		250	250	1 194 061	819 619
Cash		260	260	875 372	461 238
Other current assets		270	270	1 300	1 755
Total section II		290	290	7 305 855	6 432 245
BALANCE (sum of lines 190+290)		300	300	47 339 041	47 678 207

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007
Comparative data (RUR thousand unless otherwise stated)

LIABILITIES	Notes	Indicator code	Line code	As of the beginning of the reporting period	As of the end of the reporting period
1	1a	2	2a	3	4
III. CAPITAL AND RESERVES					
Charter capital	5.12.	410	410	6 311 999	6 311 999
Additional capital		420	420	70 946	70 946
Reserve capital	5.14.	430	430	64 985	167 378
Treasury shares	5.13.	411	440		
Retained earnings (uncovered loss) of past years		470	460	10 797 422	10 175 240
Retained earnings (uncovered loss) of the reporting period		470	470	X	3 634 673
Total section III		490	490	17 245 352	20 360 236
IV. LONG-TERM LIABILITIES					
Loans and borrowings	5.16.	510	510	17 412 971	14 422 537
<i>including:</i>					
loans			511	3 028 077	3 947 813
borrowings			512	14 384 894	10 474 724
Deferred tax liabilities	5.17.	515	515	1 124 593	1 353 923
Other long-term liabilities	5.18.	520	520	1 449 011	647 694
Total section IV		590	590	19 986 575	16 424 154
V. SHORT-TERM LIABILITIES					
Loans and borrowings		610	610	3 907 869	4 314 442
<i>including:</i>					
loans			611	47 102	44 007
borrowings			612	3 860 767	4 270 435
Account payable	5.19.	620	620	4 914 703	4 958 040
<i>including:</i>					
trade accounts payable		621	621	3 568 258	3 144 683
advances received		625	622	425 147	538 252
accrued payroll		622	623	1 587	1 119
payable to State non-budgetary funds		623	624	9 316	10 573
taxes and levies payable		624	625	208 497	215 013
other payables		625	626	701 898	1 048 400
Dividends payable		630	630	10 391	29 895
Deferred income	5.20.	640	640	466 651	433 056
Reserves for future expenses	5.21.	650	650	680 930	610 619
Other short-term liabilities	5.22.	660	660	126 570	547 765
Total section V		690	690	10 107 114	10 893 817
BALANCE (sum of lines 490+590+690)		700	700	47 339 041	47 678 207

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Information about inventories accounted on off-balance accounts

Item description	Notes	Indicator code	Line code	As of the beginning of the reporting period	As of the end of the reporting period
1	1a	2	2a	3	4
Leased fixed assets	5.23.	910	901	2 614 350	5 745 647
including capital leases		911	911	1 857 397	4 682 950
Inventory items accepted into custody		920	902	135 053	137 760
Goods accepted for commission		930	903	7 788	8 277
Bad debt written off to losses		940	904	591 608	573 514
Assets received as collateral for liabilities and payments		950	905	8 995 689	8 995 592
Assets pledged as collateral for liabilities and payments	5.24.	960	906	10 762 900	7 011 944
Depreciation of housing assets		970	907	14 056	14 539
Depreciation of land improvements and other similar assets		980	908	1 464	2 148
Intangible assets obtained for use			909	364 605	380 757

Information about net assets value

Item description	Notes	Indicator code	Line code	As of the beginning of the reporting period	As of the end of the reporting period
1	1a	2	2a	3	4
Net assets			1000	17 712 003	20 793 292

General Director _____ V. A. Martirosyan
 (signature) (name)

Chief Accountant _____ A. D. Kartashov
 (signature) (name)

March 27, 2008

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007
Comparative data (RUR thousand unless otherwise stated)

PROFIT AND LOSS STATEMENT

		Form # 02 according to OKUD	0710002
for	2007	Date (year, month, day)	2007.12.31
Organization	OJSC CenterTelecom	OKPO	01140111
Taxpayer Identification Code	5000000970	TIC	5000000970
Type of activity	telecommunications services	OKVED	64.20
Legal status / form of ownership	open joint stock company/mixed	OKOPF/OKFS	47/31
Unit of measure	RUR in thousands	OKEI	384

Indicator	Notes	Indicator code	Line code	Reporting period	Similar period of the previous year
1	1a	2	2a	3	4
I. Income and expenses from ordinary operations					
Revenue (net of VAT, excise duties and similar obligatory charges)	6.1.	010	010	32 409 127	28 395 257
including revenue from sales of telecommunications services			011	30 821 429	26 636 654
Costs of goods, products, works, services sold	6.2.	020	020	(23 968 956)	(21 208 869)
including: telecommunications services			021	(23 123 409)	(20 394 989)
Profit (loss) from operations (lines 010-020)		050	050	8 440 171	7 186 388
II. Other income and expenses					
Interest receivable	6.3.	060	060	77 415	47 460
Interest payable		070	070	(1 844 585)	(2 186 412)
Income from equity participation		080	080	26 752	15 472
Other income		090	090	1 059 061	1 462 143
Other expenses		100	100	(2 412 989)	(3 155 543)
Profit (loss) before taxation (lines 050+060-070+080+090-100)		140	140	5 345 825	3 369 508
Profit tax expenses (lines -151+/-152+/-153+/-154) including:	6.4.		150	(1 711 152)	(1 321 659)
deferred tax liabilities		142	151	(229 869)	(393 916)
deferred tax assets		141	152	(39 554)	113 009
current profit tax		150	153	(1 567 582)	(1 263 512)
Profit tax on adjusted returns for past periods		151	154	125 853	(222 760)
Profit (loss) after tax (lines 140-150)	6.5.	190	190	3 634 673	2 047 849
BY REFERENCE					
Imputed expenses/income on profit tax	6.4.		201	(1 282 998)	(808 682)
Permanent tax liabilities	6.4.	200	202	(428 154)	(512 977)
Permanent tax assets		200	203	0	0

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Indicator	Notes	Indicator code	Line code	Reporting period	Similar period of the previous year
1	1a	2	2a	3	4
Basic profit (loss) per share	6.6.		301	2.073	1.16797
Diluted earnings (loss) per share	6.6.		302	X	X

* to be completed in annual financial statements

Analysis of specific gains and losses

Indicator	Indicator code	Line code	Reporting period		Similar period of the previous year	
			profit	loss	profit	loss
1	1a	2	3	4	5	6
Fines, penalties, punitive damages recognized or imposed by a court (arbitration court) ruling		401	13 222	(2 735)	11 881	(31 217)
Profit (loss) brought forward		402	108 199	(333 353)	37 397	(1 136 965)
Reimbursement of damages caused by non-fulfillment or improper fulfillment of obligations		403	9 004	(1 003)	9 053	(1 666)
Exchange gains/losses from foreign currency transactions		404	238 085	(35 714)	104 782	(78 739)
Deductions to valuation reserves		405	324 854	(30 439)	957 135	(2 139)
Accounts receivable and accounts payable written off upon expiration of the recovery period		406	46 493	(3 681)	181 547	(16 501)

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STATEMENT OF CHANGES IN CAPITAL

			Form # 03 according to OKUD	CODES
for	2007	Date (year, month, day)		0710003
Organization	OJSC CenterTelecom	OKPO		2007.12.31
Taxpayer Identification Code	5000000970	TIC		01140111
Type of activity	telecommunications services	OKVED		5000000970
Legal status/ form of ownership	open joint stock	OKOPF/OKFS		64.20
Measurement unit	RUR in thousands	OKEI		47/31
				384

1. Changes in capital

Indicator	Indicator code	Line code	Authorized capital	Earned capital	Reserve capital	Retained profit (uncovered loss)	Total
1	1a	2	3	4	5	6	7
Balance as of December 31,2005		100	6 311 999	70 946	31 560	8 970 692	15 385 197
2006							
Changes in accounting policy		101	x	x	x		
Result from fixed asset revaluation		102	x		x		
Other		103	x		x		
Balance as of January 1, 2006		104	6 311 999	70 946	31 560	8 970 692	15 385 197
Changes in capital items:		200			33 425	1 841 186	1 874 611
Difference arising from foreign currency translation		201	x		x	x	
Net profit (loss) of the reporting year		202	x	x	x	2 047 849	2 047 849
Dividends		203	x	x	x	(173 238)	(173 238)
Appropriations to the reserve fund		204	x	x	33 425	(33 425)	
Additional shares issue on account of own sources		205			x		
Increase in the par value of shares		206			x		
Changes in capital by disposal of fixed assets		207	x		x		
Other		208					
Increase in capital through:		210					
additional shares issue on account of shareholders		211			x	x	
reorganization of the legal entity		212					
other		213					

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Indicator	Indicator code	Line code	Authorized capital	Earned capital	Reserve capital	Retained profit (uncovered loss)	Total
1	1a	2	3	4	5	6	7
Decrease in capital through:		220				(11 834)	(11 834)
decrease in the number of shares		221		x	x		
decrease in the par value of shares		222		x	x	x	
reorganization of the legal entity		223					
other		224				(11 834)	(11 834)
Balance as of Dec.31,2006		300	6 311 999	70 946	64 985	10 800 044	17 247 974
2007							0
Changes in accounting policy		301	x	x	x	(2 622)	(2 622)
Result from fixed asset revaluation		302	x		x		
Other		303	x		x		
Balance as of Jan. 1, 2007	100	304	6 311 999	70 946	64 985	10 797 422	17 245 352
Changes in capital items:		400			102 393	3 011 954	3 114 347
Difference arising from foreign currency translation		401	x		x	x	
Net profit (loss) of the reporting year		402	x	x	x	3 634 673	3 634 673
Dividends		403	x	x	x	(520 326)	(520 326)
Deductions to the reserve fund	110	404	x	x	102 393	(102 393)	
Additional shares issue on account of own sources	121	405			x		
Increase in the par value of shares	122	406			x		
Changes in capital by disposal of fixed assets		407	x		x		
Other		408					
Increase in capital through:		410				537	537
additional shares issue on account of shareholders	121	411			x	x	
reorganization of the legal entity	123	412					
Other		413				537	537
Decrease in capital through:		420					
decrease in the number of shares	132	421		x	x		
decrease in the par value of shares	131	422		x	x	x	
reorganization of the legal entity	133	423					
other		424					
Balance as of Dec.31, 2007	140	500	6 311 999	70 946	167 378	13 809 913	20 360 236

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2. Reserves

Indicator	Indicator code	Line code	Balance as of the beginning of the year	Received	Used/recovered	Balance as of the end of the year
1	1a	2	3	4	5	6
Reserves established in accordance with legislation:						
Reserve Fund						
data of 2006		601	31 560	33 425		64 985
data of 2007		602	64 985	102 393		167 378
Reserves established in accordance with the charter documents:						
Company's Employee Share Ownership Fund						
data of 2006		603				
data of 2007		604				
Valuation reserves:						
Provision fo doubtful debts						
data of 2006		605	2 127 828	159 684	(1 303 216)	984 296
data of 2007		606	984 296	152 979	(551 153)	586 122
Provisions of impairment in value of financial investments						
data of 2006		607	21 414	1 056 553	(1 331)	1 076 636
data of 2007		608	1 076 636	31 152	(4 054)	1 103 734
Provisions of impairment in value of inventories						
data of 2006		609	585	14	(585)	14
data of 2007		610	14	3 356	(14)	3 356
Provisions for future expenses						
data of 2006		611	452 075	380 650	(151 795)	680 930
data of 2007		612	680 930	1 138 199	(1 208 510)	610 619
Provisions for contingent liabilities						
data of 2006		613		126 570		126 570
data of 2007		614	126 570	547 765	(126 570)	547 765

General Director _____ V. A. Martirosyan
 (signature) (name)

Chief Accountant _____ A. D. Kartashov
 (signature) (name)

March 27, 2008

Central Telecommunication Company OJSC
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CASH FLOW STATEMENT

Form # 04 according to OKUD

			CODES
			0710004
for	2007	Date (year, month, day)	2007.12.31
Organization	OJSC CenterTelecom	OKPO	01140111
Taxpayer Identification Code	5000000970	TIC	5000000970
Type of activity	telecommunications services	OKVED	64.20
Legal status/ form of ownership	open joint stock company/mixed	OKOPF/OKFS	47/31
Unit of measure	RUR in thousands	OKEI	384

Indicator	Indicator code	Line code	Reporting period	Similar period of the previous year
1	1a	2	3	4
Balance of cash at beginning of year		010	874 476	952 823
OPERATING ACTIVITIES				
Cash flows from operating activities		020	45 197 909	35 050 785
funds received from buyers, customers		021	38 296 205	27 812 239
funds received as an agent		022	6 401 789	6 975 310
other earnings		023	499 915	263 236
Cash disbursements for:		030	(34 703 637)	(26 626 096)
payments for goods, works, services, raw material and other current assets purchased	150	031	(10 240 806)	(7 609 303)
payroll	160	032	(7 296 014)	(6 920 041)
payment of interest	170	033	(1 660 501)	(2 113 053)
payment of taxes and levies	180	034	(7 924 098)	(8 090 973)
settlements of agency agreements		035	(6 256 648)	(950 732)
other expenses		036	(1 325 570)	(941 994)
Net cash flows from operating activities		040	10 494 272	8 424 689
INVESTMENT ACTIVITIES				
Cash flows from investing activities		050	2 833 918	1 092 194
proceeds from sale of fixed asset items and other non-current assets	210	051	179 746	17 297
proceeds from sale of securities and other financial investments	220	052	2 507 061	1 020 971
dividends, income from participation received	230	053	29 463	14 587
interest received	240	054	66 597	2 170
proceeds from repayment of borrowings provided to other entities	250	055	32 144	
other income from investing activities		056	18 907	37 169

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Indicator	Indicator code	Line code	Reporting period	Similar period of the previous year
1	1a	2	3	4
Cash disbursements for:		060	(9 289 446)	(6 555 028)
purchase of fixed assets, income-bearing investments in tangible assets and intangible assets	290	061	(7 801 081)	(3 272 922)
purchase of stock, shares, interests	280	062	(27 824)	
purchase of debt securities and other financial investments	300	063	(1 328 000)	(3 282 106)
loans provided to the entities	310	064	(132 541)	
other expenses on investment activities		065		
Net cash flows from investing activities	340	070	(6 455 528)	(5 462 834)
FINANCIAL ACTIVITIES				
Cash flows from financing activities		080	4 330 884	11 379 167
proceeds from loans and borrowings provided by other entities		081	4 318 091	11 363 270
other income from financing activities		082	12 793	15 897
Cash disbursements for:		090	(8 782 866)	(14 418 473)
repayment of loans and borrowing (net of interest)		091	(6 327 462)	(12 298 234)
repayment of financial lease obligations		092	(1 999 172)	(1 965 097)
dividend payments	170	093	(455 921)	(154 326)
other expenses on financing activities		094	(311)	(816)
Net cash flows from financing activities		100	(4 451 982)	(3 039 306)
Net increase (decrease) in cash and cash equivalents		110	(413 238)	(77 451)
Balance of cash as of the end of the reporting period		120	461 238	875 372
Effect of changes in the exchange rate of foreign currency to the ruble		130	(896)	

General Director _____ V. A. Martirosyan
(signature) (name)

Chief Accountant _____ A. D. Kartashov
(signature) (name)

March 27, 2008

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007
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APPENDIX TO THE BALANCE SHEET

			Form # 05 according to OKUD	CODES
as of	December 31, 2007	Date (year, month, day)		0710005
Organization	OJSC CenterTelecom	OKPO		2007.12.31
Taxpayer Identification Code	5000000970	TIC		01140111
Type of activity	telecommunications services	OKVED		5000000970
Legal status/ form of ownership	open joint stock company/mixed	OKOPF/OKFS		64.20
Unit of measure	RUR in thousands	OKEI		47/31
				384

1. Intangible assets

Indicator	Indicat or code	Line code	As of the beginning of the reporting year	Received	Disposed	As of the end of the reporting year
1	1a	2	3	4	5	6
Intellectual property assets (exclusive rights to results of intellectual property) including the rights of: a patent holder to an invention, industrial design, utility model a beneficiary to computer software programs, databases an owner to a trademark and a service mark, the name of the place of origin of goods other	010	101	2 582			2 582
	011	102	569			569
	012	103	1 930			1 930
	014	104	83			83
	015	105				
Other	040	106				
Total		110	2 582			2 582

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007
 Comparative data (RUR thousand unless otherwise stated)

Indicator	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Amortization of intangible assets - total	050	120	1 173	1 445
including the rights of: <i>a patent holder to an invention, industrial design, utility model</i>		121	35	108
<i>a beneficiary to computer software programs, databases</i>		122	1 109	1 299
<i>an owner to a trademark and a service mark, the name of the place of origin of goods</i>		123	29	38
<i>other</i>		124		

2. Fixed assets

Indicator	Indicator code	Line code	As of the beginning of the reporting year	Received	Disposed	As of the end of the reporting year
1	1a	2	3	4	5	6
Buildings		201	4 802 622	98 925	(28 259)	4 873 288
Structures and transmission devices		202	16 788 735	1 312 943	(79 772)	18 021 906
Machinery and equipment		203	29 706 309	4 327 244	(781 908)	33 251 645
Vehicles		204	604 574	56 175	(26 558)	634 191
Computers and office equipment		205	1 856 953	570 273	(21 238)	2 405 988
Housing stock		206	80 198	838	(8 552)	72 484
Land plots and objects of the utilization of natural resources		207	35 488	719	(26)	36 181
Other fixed assets		208	720 526	45 259	(18 468)	747 317
Total		210	54 595 405	6 412 376	(964 781)	60 043 000

Indicator	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Depreciation of fixed assets - total	140	220	23 112 935	26 754 096
including: <i>buildings</i>		221	1 080 395	1 145 829
<i>structures and transmission devices</i>		222	6 741 495	7 453 859
<i>machinery and equipment</i>		223	13 263 999	15 746 130
<i>vehicles</i>		224	457 730	505 450
<i>computers and office equipment</i>		225	1 100 238	1 395 653
<i>other types of fixed assets</i>		226	469 078	507 175

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007
Comparative data (RUR thousand unless otherwise stated)

Indicator	Indicat or code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Fixed assets items out of line 210 leased out - total		230	163 846	412 410
including:				
<i>buildings</i>		231	100 802	174 650
<i>strucutures and transmission devices</i>		232	33 762	26 993
<i>machinery and eqiupment</i>		233	7 867	10 513
<i>vehicles</i>		234	17 682	195 189
<i>other types of fixed assets</i>		235	3 733	5 065
Fixed assets items out of line 210 laid-up		240	13 804	3 414

BY REFERENCE	Indicat or code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Revaluaton of fixed assets:		250		x
historical (replacement) cost	171	251		x
depreciation	172	252		x
Fixed assets items received on lease - total		260	2 614 350	5 745 647
including:				
<i>buildings</i>		261	259 203	671 971
<i>strucutures and transmission devices</i>		262	319 804	315 281
<i>machinery and eqiupment</i>		263	1 910 698	4 510 984
<i>vehicles</i>		264	31 449	
<i>other types of fixed assets</i>		265	93 196	247 411
Real estate items under operation which are in process of the state registration		270	744 153	810 173

3. Income-bearing investments into inventories

Indicator	Indicat or code	Line code	As of the beginning of the reporting year	Received	Disposed	As of the end of the reporting year
1	1a	2	3	4	5	6
Property for leasing		301				
Property granted under hire contract		302				
Other		303	1 486	14		1 500
Total		310	1 486	14		1 500

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007
 Comparative data (RUR thousand unless otherwise stated)

Indicator	Indicat or code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Depreciation of income-bearing investments in tangible assets		311	39	50

4. Expenditures on R&D and technology works

Indicator	Indicat or code	Line code	As of the beginning of the reporting year	Received	Written off	As of the end of the reporting year
1	1a	2	3	4	5	6
R&Ds competed, outcomes of which are utilized for operating or managerial needs of the organization	310	400	2 519		(1 080)	1 439

FOR REFERENCE	Indicat or code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Amount of expenses for research, development and engineering projects in progress	320	401	2 542	2 542

BY REFERENCE	Indicat or code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Expenditures referred to operating expenses		402	1 080	720
Amount of expenses for research, development and engineering projects which have not yielded positive results that are taken to other expenses		403		

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007
Comparative data (RUR thousand unless otherwise stated)

5. Financial investments

Indicator	Indicator code	Line code	Long-term		Short-term	
			As of the beginning of the reporting year	As of the end of the reporting year	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4	5	6
Contribution to charter (pooled) capital of other entities - total including subsidiaries and associates	510	501	577 787	574 554		
State and municipal securities	511	502	551 078	548 826		
Securities of other entities	515	503				
Loans, granted	520	504	1 091 207	389 340	834 025	701 867
Deposits	525	505				100 397
Other	530	506			360 036	15 000
Total	535	507	3 187			2 355
Total	540	510	1 672 181	963 894	1 119 461	819 619
Included in the total financial investments which have current market value: -						
Contributions to charter (pooled) capital of other entities - total	550	511				
including subsidiaries and associates	551	512				
State and municipal securities	555	513				
Securities of other entities	560	514				
Other	565	515				
Total	570	520				
BY REFERENCE						
For financial investments which have current market value changes in value as a result of adjustment	580	521				

6. Expenses for ordinary operations (classified by type of expenses)

BY REFERENCE	Indicator code	Line code	Reporting year	Previous year
1	1a	2	3	4
Material costs	710	601	(1 920 972)	(1 989 531)
Payroll	720	602	(8 352 172)	(7 823 744)
Deductions to meet social needs	730	603	(1 894 952)	(1 828 942)
Depreciation and amortization	740	604	(3 834 173)	(3 767 380)
Other costs and expenses	750	605	(7 966 687)	(5 799 272)
Total by type of expenses	760	610	(23 968 956)	(21 208 869)
Changes in balances (increase [+], decrease [-]: or work in progress	765	621	(36)	(467)
Prepaid expenses	766	622	(194 854)	100 440

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007
 Comparative data (RUR thousand unless otherwise stated)

7. Guarantees and collateral

Indicator	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Guarantees and collateral received - total		710	8 995 689	8 995 592
<i>including:</i> bank guarantees		711		
third party securities		712	8 995 689	8 989 330
promissory notes		713		
Pledged property		714		6 262
<i>including:</i> items of property, plant and equipment		715		
securities and other financial investments		716		
other property		717		6 262
Other		718		
Securities issued - total		720	10 762 900	7 011 944
<i>including:</i> third party securities		721	1 869 773	1 003 803
Promissory notes		722	8 721 351	5 317 794
Pledged property		723	143 866	690 347
<i>including:</i> items of property, plant and equipment		724	143 866	690 347
securities and other financial investments		725		
other property		726		
other		727	27 910	

8. Government grants

Indicator	Indicator code	Line code	As of the beginning of the reporting year	As of the end of the reporting year
1	1a	2	3	4
Government grants received in the reporting period – total	910	810		
<i>including:</i> Funds to finance capital expenditures		811		
Funds to finance current expenditures		812		

Indicator	Indicator code	Line code	As of the beginning of the reporting year	Received over the reporting period	Repaid over the reporting period	As of the end of the reporting year
1	1a	2	3	4	5	6
Government loans - total	920	820				
Funds to finance capital expenditures		821				
Funds to finance current expenditures		822				

General Director _____ V. A. Martirosyan
 (signature) (name)

Chief Accountant _____ A.D.Kartashov
 (signature) (name)

March 27, 2008

EXPLANATORY NOTES to Financial Statements of CenterTelecom OJSC for 2007

Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2007

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Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007

Comparative data (RUR thousand unless otherwise stated)

2. General Information

Open Joint Stock Company Central Telecommunication Company, abbreviated name CenterTelecom OJSC, TIC 5000000970, (hereinafter the “Company”) is registered by Order No. 567-r of the Head of Administration of Moscow Region dated June 09, 1994; Certificate of State Registration No. 127 of June 20, 1994.

In accordance with the Federal Law “About State Registration of Legal Entities”, the Company was registered with the Inspectorate of the RF Ministry for Taxes and Levies for Khimki, Moscow Region, in the Unified State Register of Legal Entities on November 1, 2002, with Main State Registration Number 1025006174710.

The Certificate of Registration with the Unified State Register of Legal Entities about the legal entity registered before July 1, 2002, dated November 1, 2002, No. 001494534.

The Company’s registered office: 23 Proletarskaya str., Khimki, Moscow Region, 141400, the Russian Federation.

The Company employed 46,637 persons as of December 31, 2007 (56,317 persons as of December 31, 2006).

Registrar:

Full trade name: *Open Joint Stock Company Associated Registration Company*

Postal address: *P.O.Box 162, 15a Kalanchevskaya str., Moscow, 107078*

Registrar’s license number: *10-000-1-00314*

Date of issue: *March 30, 2004*

Valid for: *unlimited term*

Issuing authority: *the Federal Commission for Securities Market*

Auditor:

Name: *Ernst and Young LLC*

Registered office: *build. 1, 77 Sadovnicheskaya naberezhnaya, Moscow, 115035*

Postal address: *build. 1, 77 Sadovnicheskaya naberezhnaya, Moscow, 115035*

E-mail: *moscow@ru.ey.com*

Auditor’s license:

License number: *E002138*

Date of issue: *September 30, 2002, valid for 5 years, prolonged by Order No. 573 by Ministry of Finance of the Russian Federation on September 17, 2007 until September 30, 2012.*

Board of Directors:

Chairman of the Board of Directors:

- **Alexander Nikolaevich Kiselev** – General Director, Svyazinvest OJSC;

Members of the Board of Directors:

- **Sergei Ivanovich Kuznetsov** – Deputy Chairman of the Board of Directors, CenterTelecom OJSC;

- **Mikhail Alexeyevich Alexeyev** – Member of the Board of Directors, CenterTelecom;

- **Nikolai Bagratovich Arutyunov** – Director of Analytics Department, Moscow Representative Office of NCH Advisors Inc.;

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007

Comparative data (RUR thousand unless otherwise stated)

- **Ekaterina Sergeyevna Yerofteyeva** – Executive Director, Director of Department for Strategic Development, Svyazinvest OJSC;
- **Viktor Abramovich Polischyuk** – Advisor to the General Director, Russian Telecommunications Network OJSC
- **Oksana Valerievna Petrova** – Head of Methodology and Information Department, Department for Corporate Governance and Legal Support, Svyazinvest OJSC;
- **Viktor Dmitrievich Savchenko** – Executive Director, Director of Department for Corporate Governance and Legal Support, Svyazinvest OJSC;
- **Elena Petrovna Selvich** – Executive Director, Director of Department for Economics and Finance, Svyazinvest OJSC;
- **Maxim Yurievich Tsyganov** – Managing Director, KIT Finance Investment Bank OJSC
- **Alexander Viktorovich Shevchuk** - Expert, Association for Investors Rights Protection.

Management Board:

Chairman of the Management Board:

- **Vaagn Artavazdovich Martirosyan** – General Director, CenterTelecom OJSC.

Members of the Management Board:

- **Rastyam Rashitovich Valishev** – Deputy General Director, Commercial Director, CenterTelecom OJSC;
- **Alexander Pavlovich Gribov** – Administrative Director, CenterTelecom OJSC;
- **Konstantin Yurievich Zverev** – Director for Information Technologies, CenterTelecom OJSC;
- **Andrei Dmitrievich Kartashov** – Chief Accountant, CenterTelecom OJSC;
- **Vadim Mikhailovich Kondratov** – Deputy General Director, Technical Director, CenterTelecom OJSC;
- **Alexander Alexandrovich Lutskiy** – Deputy General Director, Financial Director, CenterTelecom OJSC;
- **Dmitry Anatolievich Parkhomenko** – Director for Legal Issues and Relations with Governmental Authorities, CenterTelecom OJSC;
- **Viktoria Vladimirovna Polikarpova** – Advisor to the General Director, CenterTelecom OJSC;
- **Evgeny Borisovich Stepanov** – Deputy General Director, HR Director, CenterTelecom OJSC;
- **Sergei Viktorovich Yanyshv** – Director of Security Department, CenterTelecom OJSC.

Audit Committee:

Chairman of the Audit Committee:

- **Olga Grigorievna Korolyova** – Chief Accountant, Svyazinvest OJSC;

Members of the Audit Committee:

- **Polina Vladimirovna Burmistrova** – Head of Law Department, Department for Corporate Governance and Legal Support, Svyazinvest OJSC;
- **Evgeny Alexandrovich Nechayev** – Director of Finance Department, CenterTelecom OJSC;
- **Igor Petrovich Pavlov** – Deputy Director, Head of Investment Department in the Department for Economics and Finance, Svyazinvest OJSC;
- **Sergei Vladimirovich Podosinov** – Deputy Head of Internal Audit Department, Svyazinvest OJSC;
- **Mikhail Viktorovich Tretyakov** – Head of Department for Methodology and Evaluation of Investment Activities in the in the Department for Economics and Finance, Svyazinvest OJSC;

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007

Comparative data (RUR thousand unless otherwise stated)

Natalia Valerievna Uzlova – Deputy Chief of the Reporting Department in the Directorate for Accounting, Taxation and Statistics, Svyazinvest OJSC

Industry Legislation

Setting New Tariffs in Compliance with Tariff Plans

In accordance with current legislation of the Russian Federation related to the regulation of natural monopolies, the Company is included in a list of companies/natural monopolies in the telecommunications sector. As a result, tariffs for a number of the Company's telecommunications services are set by the Federal Service for Tariffs of the Russian Federation (hereinafter referred to as the FST of Russia).

In accordance with Orders by the FST of Russia, the Company set the following tariffs and tariff plans for local telephone communications services from February 1, 2007:

1. Provision of a local telephone connection to a subscriber (user) of the fixed line telephone network for voice, fax and data transmission (except public pay telephones):

- City and rural telephone network tariffs where time-based local billing is not technically possible: for individual subscribers of City Telephone Exchanges (hereinafter referred as CTE) – RUR80 per month (RUR90 per month in the Moscow region), for subscribers of Rural Telephone Exchanges (herein after referred as RTE) – RUR90 per month in the Moscow region, RUR80 per month in the Belgorod, Voronezh, Kaluga, Lipetsk, Tambov regions, RUR50 per month in the Bryansk and Vladimir regions, RUR60 per month in the Ivanovo, Ryazan, Tver and Tula regions, RUR70 per month in the Kostroma, Kursk and Yaroslavl regions, RUR40 per month in the Orel region, RUR55 per month in the Smolensk region, and RUR100 for corporate CTE subscribers;
- City and rural telephone network tariffs based on flat fee payment, where time-based local billing is technically possible: for individual CTE and RTE subscribers – RUR130 per month (RUR160 per month in the Moscow region);
- City and rural telephone network tariffs using time based billing: for individual and corporate CTE and RTE subscribers – RUR0.22 per minute (RUR0.24 per minute in the Moscow region);
- City and rural telephone network tariffs based on combined flat-fee and time-based payment, where possible technically: for basic number of minutes for individual CTE subscribers – RUR80 per month (RUR90 per month in the Moscow region), for RTE subscribers – RUR90 per month in the Moscow region, RUR80 per month in the Belgorod, Voronezh, Kaluga, Lipetsk, Tambov regions, RUR50 per month in the Bryansk and Vladimir regions, RUR60 per month in the Ivanovo, Ryazan, Tver and Tula regions, RUR70 per month in the Kostroma, Kursk and Yaroslavl regions, RUR40 per month in the Orel region, RUR55 per month in the Smolensk region;
- City and rural telephone network tariffs based on combined flat-fee and time-based payment, where possible technically: for additional number of minutes for individual CTE and RTE subscribers – RUR0.18 per minute (RUR0.19 per minute in the Moscow region);

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007

Comparative data (RUR thousand unless otherwise stated)

2. Provision of a local telephone line to an individual CTE and RTE subscriber – RUR120 per month (RUR130 per month in Moscow region), and to a corporate CTE and RTE subscriber – RUR145 per month.

Tariffs for local telephone communications services have been set by the FST of Russia relying on economically justified expenditures based of gross revenues needed to cover production cost, a portion other costs and standard profit levels. At the same time the elements of cross subsidy of local telephone communications services have been retained.

According to the current legislation cross subsidization is being implemented partially by means of tariffs for intra-zone telephone connections regulated by the state and by means of compensation adjustment for services of local and zone call initiation necessary for intra-zone and long distance telephone connection set up.

The Company renders to telecommunications operators an interconnection service and a traffic transmission service in accordance with a Decree No. 161 “About Approval of Rules of Telecommunications Networks’ Interconnection and Their Interactions” issued by the Government of the Russian Federation on March 28, 2005. According to Order No.39 of October 21, 2005 and Order No. 41 of October 24, 2005 “About Inclusion of Telecommunications Operators Taking Significant Positions in Public Network”, the Company is included in the list of operators with significant positions in the public network. The Company’s prices for interconnection and traffic transmission services are to be regulated by the state.

The Federal Service for Surveillance in the Telecommunications Sector set price limits for interconnection services by its Order No.51 issued June 19, 2006. The price limits include price limits for the organization of a point of interconnect (hereinafter referred to as POI) and price limits for the maintenance of POI. The Company has set its prices for interconnection services at the maximum level under these price limits.

The Federal Service for Surveillance in the Telecommunications Sector set price limits for traffic transmission services on the public network by its Order No.51 issued June 19, 2006. The Company has set its prices for call initiation and completion services at the maximum level under the price limits, excluding the price for call completion at the Company’s communications center which is RUR0.12 (compared with the price limit for this type of service of RUR0.19).

A compensation adjustment for the price chargeable for local and zone call initiation needed for long distance telephone connections has been established in accordance with Decree No. 627 “About State Regulation of Prices for Interconnection and Traffic Transmission Services Rendered by Telecommunications Operators Taking Significant Positions in the Public Network” issued by the Government of the Russian Federation on October 19, 2005.

In accordance with Order No.729-c/3 issued by the FST of Russia on December, 20, 2005 a compensation adjustment for the price chargeable for local and zone call initiation in the amount of RUR0.62 per minute was set. The adjustment was used by the Company starting January 1, 2006. In accordance with Order No.261-c/2 issued by the FST of Russia on November 14, 2006 the compensation adjustment was changed effective from February 1, 2007 to RUR0.5 per minute.

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007

Comparative data (RUR thousand unless otherwise stated)

Change in Rules for Tariff Calculation (Order No. №140-c/1 issued by the FST of Russia on August 3, 2007)

In accordance with changes to the Order on the Calculation of Tariffs and Tariff Plans for local telephone communications services made by the FST of Russia in the third quarter of 2007 a decision on a decrease in tariffs for local telephone communications services for individual shared service line subscribers since January 1, 2008 was made:

- Tariff for supplying a local telephone line to an individual subscriber has been reduced by 25%;
- City and rural telephone network tariffs where time-based local billing is not technically possible have been reduced by 50%.

Coming into Effect of a Provision on Expert Evaluation of Telecommunications Networks

In accordance with Federal Law No.14-FZ "About Amendments of the Federal Law 'About Telecommunications'," telecommunications operators should register telecommunications networks construction of which has been completed before the date of this law's coming into effect. The registration should be undertaken not later than January 1, 2010. For registration an operator should present a system project of the telecommunications network and a qualified opinion on the system project's conformity with established requirements in the telecommunications sector after the conduct of an expert evaluation of the project (positive conclusion). Mandatory development and expert evaluation of all system projects allows control over conformity of the networks with all the requirements of the public telecommunications network as to unified technological system.

At the moment the Ministry for Information Technologies and Communications of the Russian Federation is developing a number of regulatory documents related to issues of system engineering and expert evaluation. The Company will also prepare similar documents reflecting organizational aspects of system projects development. The development of system projects will be planned before the implementation of investment programs. The Company will also assess the need for development of system projects for telecommunications networks which will not be included in investment programs. During the expert evaluation of a system project conformity of the telecommunications network with the licensed services should be checked. Implementation of these works leads to an increase in the Company's capital expenditures.

Simultaneously the terms for putting of telecommunications facilities into operation will be increased. At the moment the Company does not regard it as possible to estimate the influence of the Provision on Registration and Expert Evaluation of Telecommunications Networks on the Company's financial performance.

Universal Telecommunications Services

Since 2005 the Russian Federation has guaranteed to its citizens the provision of universal telecommunications services including the provision of local telephone connections through public pay phones, access to information system and free 24-hour emergency services calling and also data transmission and Internet access services through public access points in remote regions of the Russian Federation.

Central Telecommunication Company OJSC
Explanatory Notes to Financial Statements for 2007

Comparative data (RUR thousand unless otherwise stated)

The Company has taken part in tenders for the provision of universal telecommunications services by way of provision of local telephone connections through public pay phones in its licensing territories. In 2007 the Company won 27 tenders (the Company won 4 tenders for 2005-2006) and has concluded 130 contracts for the provision of local telephone connections through public pay phones with the Federal Agency for Telecommunications (for 2005-2006 the Company concluded 27 such contracts).

As of December 31, 2007, the total number of public pay phones installed by the Company in accordance with the contracts concluded reached 7,591. The universal telecommunications services are rendered in accordance with the tariffs calculated by the Federal Agency for Telecommunications and included into the contracts.

Established tariffs on universal telecommunications services do not cover the Company's costs connected with the services' provision. The excess of economically justified expenditures for the provision of universal telecommunications services over income received based on the established tariffs generates a loss related to the provision of universal telecommunications services which must be reimbursed out of the universal service reserve.

The rules of the formation and disbursement of funds from the universal service reserve are approved by Decree No.234 issued by Government of Russian Federation on April 21, 2005. In accordance with Clause 4 of the Decree, allocations to the universal service reserve are charged to the federal budget in accordance with established classification code of revenues to the budgets of the Russian Federation. In accordance with Clause 5 of the Decree, during creation of the draft of the federal budget for each year, the telecommunications operators' allocations to universal service reserve are provided in the federal budget's incomes and expenditures in accordance with the budget classification of Russian Federation. Thus the universal service reserve is one of the budget funds. Reimbursement for losses is undertaken by the Federal Agency for Telecommunications in accordance with the procedure established by Decree No. 246 issued by the Government of Russian Federation on April 21, 2005 and established by the contracts for provision of universal telecommunications services.

For the first half of 2007, in accordance with the contracts' terms, the Company received reimbursement for losses once every six months. Since the third quarter 2007, the reimbursement for losses has been made quarterly. The final decision on the amount of reimbursement for losses is made by the Federal Agency for Telecommunications at year-end after submission by the Company of a report by an independent audit company confirming:

- Correctness of the calculation of losses for reimbursement;
- Completion of a separate accounting in accordance with requirements provided by Order No.54 issued by the Ministry for Information Technologies and Communications of the Russian Federation on May 2, 2006;
- Complete transfer of funds by the Company to the universal service reserve.

“Education” National Project

In 2006-2007 the Company took part in the implementation of the priority National Project “Education”. The Company's affiliates provided Internet access to 11,201 educational organizations located in Central Federal District, of which 6,649 organizations were connected to the Internet in 2007.

Central Telecommunication Company OJSC **Explanatory Notes to Financial Statements for 2007**

Comparative data (RUR thousand unless otherwise stated)

Pursuant to a contract concluded with RTComm.ru OJSC, the Company provided virtual communications services connecting educational organizations with RTComm.ru's communications points and supplied 24-hour access to these channels.

The educational organizations are connected through CenterTelecom's telecommunications network via the following communications channels:

- xDSL fixed line communications channels (10,897 educational organizations)
- cellular communications channels (262 educational organizations);
- Wi-Fi channels (56 educational organizations);
- WiMAX channels (42 educational organizations).

The Company's total expenditure for providing of Internet access services to educational organizations for 2007 reached RUR704.197 million (compared with RUR81.366 million for 2006). The company's revenues from the provision of Internet access services to educational organizations under the "Education" National Project for 2007 reached RUR98.8 million (RUR14.753 million for 2006), including RUR86.446 million income from services associated with the organization of virtual communications channels (RUR6.229 million for 2006).

The Company's Digitalization Plans

In 2007 the level of local telephone network digitalization reached 57.7%. Putting new telephone exchanges into operation and replacing semi-electronic and analogue exchanges with electronic exchanges allowed the Company to improve service quality, to expand the range of services and to conform with the requirements of Order No.142 "About Approval and Implementation of the Russian Numbering System and Plan" issued by the Ministry for Information Technologies and Communications of the Russian Federation on November 17, 2006.

Enabling of Interconnection of Local and Mobile Networks

The Government of the Russian Federation by its Decree No. 666 issued on October 12, 2007 amended the "Rules of Interconnection and interaction of Telecommunications Networks" approved by the Government of Russian Federation by its Decree No.161 of March 28, 2005. In particular, Clause 11.3 has been amended, namely the word "fixed" has been excluded. In accordance with the amended Clause the operator of a local telephone communications network renders interconnection services to other operators including operators of zone telephone communications networks. Operators of mobile communications networks are included in a number of zone telephone communications networks.

In July 2007 Order No.98 by the Ministry for Information Technologies and Communications of the Russian Federation, dated August 8, 2005, was amended. The changes in the Order provide for traffic transmission from local telephone communications networks to mobile communications networks. Implementation of Decree No. 666 by the Government of the Russian Federation, dated October 12, 2007, and Order No.98 by the Ministry for Information Technologies and Communications of the Russian Federation, dated August 8, 2005, did not result in any change in requirements regarding CenterTelecom's interactions with the operators of mobile telecommunications networks and did not have an impact on the Company's economic activities.

Change in Numbering Plan

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Comparative data (RUR thousand unless otherwise stated)

The Ministry for Information Technologies and Communications of Russian Federation by its Order No.142 issued November 17, 2006 approved and put into effect the Russian Numbering Plan and System. Putting into effect the Russian Numbering Plan and System will occur in a phased manner.

Stage 1 of the Plan (2007) provides for a switch to usage of closed numbering plan for Inter-zone telephone connections and exclusion of telephone numbers beginning with “1” from the numbering plans of the local telephone networks.

The Company has taken all necessary organizational and technological measures in order to implement stage 1. At the moment the telephone numbers beginning with “1” are excluded from the numbering plans of the local telephone networks. The Company has also switched to the closed numbering plan for Inter-zone telephone connections in areas where the Company is operating in accordance with its licenses.

Stage 2 (2008) provides for:

- A switch to usage of an “0” prefix for Inter-zone and long distance connections
- A switch to usage of numbers out of reserve of numbering of first millionth group for access to emergency services, information services of telecommunications operators and special services of local telephone communications networks.

Such measures will allow the Company to provide access to emergency services across the Russian Federation through the standardized telephone number 112 for all subscribers and users of fixed line and mobile telecommunications services.

Stage 3 (2009) provides for a switch to a closed numbering plan for local telephone connections. For this it will be necessary to replace outdated switching equipment installed in electronic, semi-electronic and analogue telephone exchanges with digital switching equipment.

Such exchanges represent approximately 42.3% of all switching capacity of the Company’s existing networks.

The Company plans to make investments into the planned changes in accordance with changes in numbering plans described above (see clause 10.5 hereof).

Cancellation of Payment for Telephone Connections for Access to Telematic and Data Transmission Services

The Government of the Russian Federation by its Decree No. 477 issued on July 25, 2007 has amended the “Rules of Provision for Local, Inter-zone and Long Distance Telephone Communications Services”. In particular the Rules include a paragraph providing that in the tariff classification of telephone connections the duration of a telephone connection for access to telematic services and data transmission services shall not be taken into consideration. The amendment came into effect August 1, 2007. As a consequence free access to telematic services and data transmission services has been clearly established.

Implementation of the Rule on Rounding up to 30 Seconds for Connections

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The Government of the Russian Federation by its Decree No. 477 issued on July 25, 2007 has amended the “Rules of Provision for Local, Inter-zone and Long Distance Telephone Communications Services”. In particular the Rules include a paragraph governing the procedure for mathematical rounding of connection durations. In accordance with the procedure for calculating local telephone connection cost an incomplete unit of tariff classification which amount reaches half or more than half of the unit is regarded as a full unit and an incomplete unit which amounts to less than half is regarded as half the unit. The new rules came into effect on August 1, 2007. Prior to this an incomplete unit of tariff classification which amounted to less than half a unit was regarded as a full unit.

The Company’s Financial Operations for 2007

The core activities of the Company include:

- provision of Inter-zone telephone communications services;
- provision of local telephone communications services, including:
 - universal telecommunications services
 - interconnection and traffic transmission services
 - services associated with the provision of long distance telecommunications services by long distance telecommunications operators;
- provision of mobile radio communications services, fixed line communications, radio broadcasting and TV broadcasting services;
- provision of cellular mobile communications services;
- provision of telegraph communications services, data transmission and telematic services;
- other services related to basic types of the Company’s operations
- leasing services
- other services related to secondary types of the Company’s operations

Inter-zone Telephone Communications Services

Inter-zone telephone communications services include the provision to users of:

- telephone connections between the users connected to the fixed telephone communications network within any constituent entity within the Russian Federation;
- telephone connections between users connected to the fixed telephone communications network and the users connected to mobile communications network, when subscriber’s numbers of the calling subscriber and the called subscriber and (or) user are included in numbering resource in accordance with numbering zones that are defined geographically or not defined geographically as assigned to the same constituent entity of the Russian Federation.
- Inter-zone telephone connections via public pay phones
- Inter-zone telecommunications channels

Local Telephone Communications Services

Local telephone communications services include provision of local telephone connections to the user (city and rural telephone communications) and also universal telecommunications services.

Interconnection and Traffic Transmission Services

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Interconnection services include services related to setting up of POI and POI maintenance services rendered to interconnected operators.

Traffic transmission services include:

- services related to the transmission of traffic of telephone communications operators (call initiation, call termination and transit of a call);
- services related to the transmission of traffic of data transmission operators;
- services related to the transmission of traffic of telegraph communications network operators.

Services in Support of Long-Distance Domestic and International Communications Services Provided by Long-Distance Domestic and International Communications Operators

The Company is an agent for operators of long-distance domestic and international telephone communications in the provision of such services to subscribers. In this connection, the Company has made agreements with Rostelecom OJSC and Interregional TransitTelecom OJSC and provides services that support long-distance domestic and international communications in accordance with these agreements. Such services, in particular, include:

- processing of a subscriber's order when providing international and domestic long-distance communications access using both direct-dialing and operator-assisted services.
- bill processing for long-distance domestic and international communications services;
- preparation, generation and storage of necessary documents and reporting forms;
- agency services on collection of payments from subscribers; information and inquiry services on behalf and at the expense of operators of long-distance domestic and international communications;
- activities on claims and actions; document delivery.

Liquidity and Financial Resource

Currently the world economy is going through the consequences of a global financial crisis in the mortgage market and a resulting liquidity crisis. Risks related to the possible rise of interest rates on borrowed funds and to the possibility of borrowing have emerged in connection with this negative situation in the short term perspective.

In 2007 the Company attracted short and long term credit to finance its operations. Loans have been attracted in the form of bank loans. Part of the Company's investment activities have been financed by means of off-balance sheet leases.

In 2007 the Company paid its debts in full and in time.

The Company's payment capacity is characterized by the following figures as of December 31, 2007:

	December 31, 2006	December 31, 2007
Absolute liquidity ratio ¹	0.20	0.12
Current liquidity ratio ²	0.72	0.59

¹ Absolute liquidity ratio is calculated as the relation of cash assets (item 260 of the Balance Sheet) and short term financial investments (item 250 of the Balance Sheet) to short term liabilities (item 690 of the Balance Sheet)

² Current liquidity ratio is calculated as the relation of current assets (item 290 of the Balance Sheet) to short-term liabilities (item 690 of the Balance Sheet).

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Comparative data (RUR thousand unless otherwise stated)

Net current liabilities, RUR million ³	(2,801)	(4,462)
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A key tool for maintenance of the Company's payment capacity at the necessary level is the availability of credit resources in the form of revolving credit line and overdrafts for the Company. As of January 1, 2008, the amount of accessible credit financing was approximately RUR2.2 billion.

The company plans to finance its operational and investment activities in 2008 by means of funds received from its basic operations practically in full. Attraction of credit facilities can be for the refinancing of a part of the debt portfolio (as a result of an offer scheduled to take place in September 2008). Financing of a part of the investment program is planned to be made by means of leasing.

In order to maintain the Company's payment capacity at the necessary level CenterTelecom OJSC plans to take the following steps:

- to optimize its expenditures including limitation of expenditures connected to personnel (by means of optimizing of personnel numbers and reducing the amount of variable cost of compensation), optimization of material costs and expenditures related to repair and maintenance, control over administrative and other expenses, optimization of sales and servicing related expenditures by means of inclusion of services into packages and by outsourcing
- to review the investment program in the direction of reducing its cost sum or postponing the terms of implementation. Contracts with equipment suppliers and contractors concluded by the Company allow CenterTelecom OJSC to take these steps.
- to increase efficiency in the usage of current capital including decreasing accounts receivable and reducing average collection periods, including by means of changes to current contract relations with customers, and to increase accounts payable up to their optimal level.

Thus the management of CenterTelecom OJSC does not expect that the situation in the global debt markets to have a significant impact on the Company's ability to attract external financing in 2008.

3. Accounting Policy

These financial statements of the Company are prepared on the basis of the following accounting policy.

Basis of Preparation of the Company's Annual Accounting Records

The Company keeps accounting records in accordance with Federal Law No. 129-FZ, dated November 21, 1996, "About Accounting" (as amended on July 23, 1998, March 28 and December 31, 2002; January 19, May 28, June 30, 2003, and November 3, 2006) and the Statute Concerning Accounting and Reporting in the Russian Federation" as approved by Order No. 34n of the Ministry of Finance of the Russian Federation, dated July 29, 1998 (as amended on December 30, 1999, March 24, 2000 and September 18, 2006), as well as applicable Accounting Statements.

³ Net current liabilities are calculated as the difference between short term liabilities (item 690 of the Balance Sheet) and current assets (item 690 of the Balance Sheet).

Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2007

Comparative data (RUR thousand unless otherwise stated)

Financial statements of the Company for 2007 have been prepared in accordance with the same Law and regulations based on the assumption that the Company will proceed with its activities in the foreseeable future, and neither intends, nor needs to be liquidated or to reduce its activities considerably; consequently, liabilities will be met in the applicable procedure.

Assets and Liabilities Denominated in Foreign Currencies

Official exchange rate of a foreign currency to Ruble as of the date of relevant transaction was applied in accounting for economic transactions denominated in foreign currencies. Cash assets and liabilities denominated in foreign currencies are reflected in the financial statements in the amounts calculated based on the exchange rates fixed by the Central Bank of the Russian Federation as of the reporting date (RUR per currency units):

Currency	December 31, 2007	December 31, 2006
US dollar	24.5462	26.3311
Euro	35.9332	34.6965

Exchange differences that have arisen over the year on transactions with assets and liabilities, as well as through recalculation as of the reporting date, are referred to other income and expenses. The ruble equivalent of currency balances as of the year beginning and foreign currency flows over the year in the Cash Flow Statement are calculated based on the official exchange rate as of December 31, 2007, hence, comparable data are calculated based on the official exchange rate as of December 31, 2006.

Intangible Assets

Intangible assets include the trademark and exclusive intellectual property rights: patents for invention of utility models, software programs and databases. Intangible assets are shown in the statements at historical cost less amortization accumulated over the whole term of use. Value of intangible assets is amortized by the straight-line method within the fixed useful life. The useful life is defined by the designated committee and approved in the applicable procedure based on the expected period of the item use, within which the Company intends to gain economic benefits (income) from its use.

Fixed Assets

Fixed assets are accepted for accounting at historical cost. Historical cost of fixed assets purchased against consideration is the amount of actual costs for purchase, construction and manufacture, excluding value added tax and other recoverable taxes (except for the cases provided for by the laws of the Russian Federation). Historical cost of fixed assets purchased in exchange for goods (inventories) other than money is the value of transferred or transferable assets. The latter has been measured based on the price, at which the Company usually defined value of similar goods (inventories) in comparable conditions.

Fixed assets are shown in the Balance Sheet at historical (replacement) cost less depreciation accrued over the full term of usage. Fixed assets include real estate accepted for use and actually used prior to state registration of the title. Depreciation of fixed assets is accrued by the straight-line method based on the accepted useful life:

- buildings – 7-100 years

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- transmission facilities – 15-50 years
- other facilities – 7-59 years
- analogue switching units – 8-30 years
- digital switching units – 3-30 years
- other telecommunications network equipment – 3-30 years
- computer and office equipment – 3-12 years
- vehicles – 3.5-10 years
- other items – 2-16 years

Since 2007 the Company has adopted the following periods of useful life for buildings and equipment placed into operation after January 1, 2007:

	Periods of useful life of buildings and equipment put into operations, years	
	Prior to January 1, 2007	Since January 1, 2007
Transmission facilities	7-59	
Telecommunications equipment	7-30	
Transmission equipment		15
Other facilities		11-30
Analogue switching units		8-10
Digital switching units		3-15
Other telecommunications network equipment		3-15

This change in useful life has been prompted by rapid changes in telecommunications technologies and equipment, in particular by new industry norms providing for the necessary level of telecommunications network digitalization.

The Company is actively implementing broadband Internet access provision services, and is working on accelerating the modernization of fixed line telecommunications infrastructure by means of packet switching technologies.

Since 2007 the Company has adopted the following periods of useful life for buildings, computer and office equipment, vehicles and other items put into operations after January 1, 2007:

	Periods of useful life of buildings and equipment put into operations, years	
	Prior to January 1, 2007	Since January 1, 2007
Buildings	7-100	21-50
Computer and office equipment	3-12	3-5
Vehicles	3,5-10	5
Other items	2-16	4-10

These changes in useful life arise from the following factors:

- accelerated depreciation of computer and office equipment in connection with the high rate of technological change in this sector

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- changes in the physical and economic characteristics of buildings and also the situation in the real estate market. According to the results of monitoring of the situation in the market, the value of buildings which have been used by industrial enterprises more than 30 years is declining because of changes in mechanical features of the buildings, and their physical and operational characteristics.

Land is not depreciated.

Commissioned housing stock and external improvements are not depreciated.

Expenses on all types of repair are included in operating expenses for the reporting period. No provision for future expenses on fixed assets repair was made.

Depreciation on the fixed assets received under financial lease contracts starting from 2006 and accounted for as the Company's fixed assets is accrued by the straight-line method based on the established useful life.

Financial Investments

Financial investments, for which no current market value is determined, are reflected in the balance sheet at their historical cost.

Historical cost of financial investments:

- acquired against consideration is measured as the total of the Company's actual expenses on their acquisition;
- acquired under contracts providing for non-cash payment is measured as the value of the assets transferred by the Company;
- in the form of contributions to the capital of subsidiaries, associates and other companies is measured as the monetary value agreed upon by the founders (participants) of such companies.

Financial investments, for which a stable material impairment is determined as of the end of 2007, are shown in the Balance Sheet net of provision for impairment of financial investments. The amount of the provision is charged to an increase in other expenses.

If after financial investments' impairment testing as of late 2007 an increase in their cost is revealed in comparison with late 2006, provision for impairment of financial investments will be corrected towards its decrease with charging of the amount of the correction in other proceeds.

Straight-line charging of the difference between total actual costs for debt securities and their nominal cost (discount) is not implemented for debt securities. Discount accounting is made at redemption of the securities.

Inventories

Inventories are carried in the financial statements at the actual acquisition cost, which is understood as follows:

- inventories purchased against consideration – total amount of actual costs, including the cost of bringing the inventories to usable condition, excluding value added tax and other recoverable taxes;
- inventories manufactured by the organization – total amount of manufacturing costs;

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- inventories received under gift contracts (free of charge), as well as those remaining upon disposal of fixed assets and other property – the current market value as of the date of entering in accounting records;
- inventories received under agreements that provide for non-cash payment – value of the assets transferred or transferable by the organization.
- goods in retail are carried at selling prices.

Assets purchased after 2006, subject to the conditions set forth in clause 4 of Accounting Statement 6/2001 “Fixed Assets Accounting” and valued under RUR 10,000 are included in Inventories.

Inventories are reflected in the financial statements net of impairment provision. The provision was created in the amount difference between the current market value and the actual cost of inventories that are obsolete, damaged (partially damaged) or impaired. Expenses on creation of the provision have been charged to other expenses.

Inventories to be disposed of (except for precious metals) are measured at average weighted cost. Precious metals are depreciated at unit cost.

Prepaid Expenses

Expenses incurred by the Company during the reporting period, but related to future reporting periods are reported as prepaid expenses. Such expenses are written off for designated purposes equally within the periods to which they relate.

Prepaid expenses related to purchase and implementation of software products and databases to be used for the period of over 12 months are reflected in the Balance Sheet as other non-current assets.

Trade Accounts Receivable

Trade accounts receivable are reflected in the financial statements taking into account VAT paid to the budget after receipt of payment on accounts receivable, and measured based on the prices fixed by the agreements between the Company and buyers (customers) taking into account all discounts (extra charges) provided by the Company. Bad debts were written off from the balance sheet as they were recognized as such.

Accounts receivable for services, works, goods, products, fixed assets, inventories and other property sold that have not been repaid when due in accordance with the agreements and not secured by relevant guarantees are reflected net of provisions for doubtful debts.

The amount of the provision is determined individually for every debt based on the inventory carried out depending on the debtor’s solvency and probability of debt repayment. As an individual review of every doubtful debt on telecommunications services is impossible in telecommunications companies because of a great number of subscribers, the provision is created in the amount of 100 percent of all outstanding debts for telecommunications services, overdue 90 days and more as of the date of provision creation. No provision is created for debts overdue less than 90 days.

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Provision for debts of social security authorities on compensation for expenses related to privileges on telecommunications services is created based on the results of an inventory of debts under contracts (agreements) with the social security authorities.

Provisions for doubtful debts are charged to an increase in other expenses.

Prepaid Expenses and Other Accounts Receivable

Prepaid expenses receivable are reflected in the financial statements less provisions for doubtful debts made after an inventory count of prepaid expenses on which the receipt of services is doubtful.

Other accounts receivable are reflected in the financial statements less provisions for doubtful debts based on an inventory count of other accounts receivable on which the receipt of services is doubtful.

Expenses for provisions are charged to an increase in other expenses.

Loans and Borrowings Received

The Company transfers long-term payables on loans and borrowings to short-term payables, when the principal debt matures in 365 days according to the terms of the loan and (or) credit agreement.

Interest on loans and borrowings received that are directly used for purchase or building investment assets are charged to an increase in the value of such investment assets before putting of these assets into operation.

Additional expenses incurred in connection with receipt of loans or borrowings include expenses related to:

- provision of legal and consultancy services to the Company;
- provision of agency services to the Company on placement of paper credits and bonded loans;
- expert examinations;
- consumption of telecommunications services;
- other expenses directly related to receipt of cash loans.

Additional expenses related to receipt of loans and borrowings, placement of debt liabilities, are recognized by the Company as expenses of the period, in which they were incurred.

Interest on loans (borrowings) received are accrued on a monthly basis in accordance with the procedure specified by the relevant agreement.

The amount of discount payable to the note holder on cash borrowings obtained through issue of the Company's promissory notes is charged to deferred expenses with further write-off to other expenses in equal installments on a monthly basis within the term of promissory notes circulation.

The amount of discount on cash borrowings obtained through issue of the Company's bonds, in case of sale of the bonds issued at the price other than par value thereof (with discount), is

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charged to deferred expenses with further write-off to other expenses in equal installments on a monthly basis within the term of bonds circulation.

Revenues

Revenues from sale of products and services are recognized on an accrual basis, i.e. as the services are provided and reflected in the financial statements net of value added tax and discounts given to buyers.

Revenues from sale of products through exchange of commodities (barter) are measured at the value of inventories received or receivable by the Company as calculated based on the prices at which the Company normally measures the value of similar inventories in comparable circumstances.

Proceeds from lease out of the Company's property are included in operating income.

Dividends are recognized in other income as they are declared.

Reimbursement of losses connected to provision of universal telecommunications service is recognized other revenues in the period of making a decision on the losses' reimbursement by the Federal Agency for Telecommunications.

Expenses

The Company calculates full production cost of the services provided, work performed, products sold without breakdown into managerial and commercial expenses. Expenses are recognized by activities in accordance with Order No. 54 of the Ministry of Information Technologies and Telecommunications of the Russian Federation dated May 2, 2006, "Approval of Procedure for Separate Accounting by Telecommunications Operators of Revenues and Expenses by Types of Activities, Telecommunications Services Provided and Parts of Telecommunications Network Used to Provide Such Services".

The Company makes provisions for services rendered on which supporting primary documentation for the accounting and reporting system has not been submitted but at the same time the accruals terms have been implemented in accordance with the Accounting Statement "Company Accrual Basis Accounting" (PBU 10/1999). Expenses based on these provisions are charged to operating expenses, as well as to other expenses depending on the type of activities.

Provisions Made by the Company

The Company makes the following types of provisions:

- financial investments impairment provisions
- provisions for doubtful debts related to trade accounts
- provisions for doubtful debts related to prepaid expenses and other accounts receivable
- provisions for decreases in inventory cost
- provisions for liabilities and charges related to:
 - yearend remuneration of the members of the Board of Directors
 - 4th quarter remuneration of the members of the Board of Directors and the Management Board

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- 4th quarter bonuses paid to the Company's employees
- yearend bonuses paid to the Company's employees
- regular and additional vacations of the Company's employees provided by the current legislation
- indirect liabilities.

Pensions

Social charges are made through payment of unified social tax calculated by the Company at regressive rate, amounts of which are given in the Tax Code of the Russian Federation.

The Company participates in the lump sum pecuniary aid plan (in the amount of 100% of salary) for the Company's employees in case of their retirement. This plan covers all the Company's employees and does not provide for creation of any special funds. Pecuniary aid is provided to employees, who worked with the Company for 10 years and more.

The Company also participates in the pension plan within the framework of the non-governmental pension scheme. Amounts of contributions are determined on an annual basis and charged to expenses as soon as they arise (see clause 8 hereof).

Changes in Accounting Policy for 2007

Since January 2007 in accordance with the amended Accounting Statement "Accounting for Assets and Liabilities Denominated in Foreign Currency" (PBU 3/2006), as approved by Order No. 154n of the Ministry of Finance of the Russian Federation dated November 27, 2006, the Company translates amounts denominated in foreign currency and payable in Rubles at the official exchange rate for the foreign currency established by the Central Bank of the Russian Federation as of the reporting date or at another rate fixed by relevant contract.

In connection with the adoption of the new rules the Company has recalculated the amounts and financial investments denominated in foreign currency and payable in Rubles as of January 1, 2007 and deferred taxes connected with them. The increases or decreases in amounts and deferred taxes are charged to retained profit (see clause 4 hereof).

Apart from this Accounting Policy for 2007 conforms to the Accounting Policy followed in the previous financial year.

Changes in Accounting Policy for 2008

In 2008 in accordance with the Accounting Statement "Accounting for Fixed Assets" (PBU 6/2001) as approved by Order No. 26n of the Ministry of Finance of the Russian Federation dated March 30, 2001 the Company has raised the limit on the value of assets included in fixed assets from RUR10,000 to RUR20,000 per unit. Since January 1, 2008, assets in relation to which the conditions provided by Clause 4 of the Accounting Statement "Accounting for Fixed Assets" (PBU 6/2001) have been fulfilled and where the cost does not exceed RUR20,000 per unit shall be reflected in the financial statements and in the balance sheet in inventory.

No other accounting policy changes likely to have substantial influence on the financial statements were made for 2008.

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Comparative data (RUR thousand unless otherwise stated)

4. Comparative Data

Comparative data (corresponding figures) in the Company's financial statements for 2006 are generated by adjusting the financial statements for 2006 and bringing them into correspondence with indicators for 2007.

Changes in the opening balance as of January 01, 2007

Indicator		Balance as of Dec 31, 2006	Corrections	Balance as of Jan.1, 2007
<i>I. NON-CURRENT ASSETS</i>				
Deferred tax assets	145	408,440	444	408,884
Other non-current assets	150	3,259,289	965,837	4,225,126
Total Section 1	190	39,066,905	966,281	40,033,186
<i>II. CURRENT ASSETS</i>				
Inventory	210	2,181,929	(973,400)	1,208,529
raw materials, consumables and other similar assets	211	490,098	35,623	525,721
prepaid expenses	216	1,672,423	(1,009,023)	663,400
VAT on purchased assets	220	903,879	-	903,879
where reimbursement is expected more than 12 months following the reporting date	221	-	213,796	213,796
where reimbursement is expected within 12 months following the reporting date	222	903,879	(213,796)	690,083
Accounts receivable (where settlement is expected within 12 months following the reporting date)	240	3,145,924	(30,927)	3,114,997
advances paid	242	119,164	(2,439)	116,725
other debtors	243	666,644	(28,488)	638,156
Total section II	290	8,310,183	(1,004,328)	7,305,855
BALANCE	300	47,377,088	(38,047)	47,339,041
<i>III. CAPITAL AND RESERVES</i>				
Retained earnings (uncovered loss) for past years	460	8,752,195	2,045,227	10,797,422
Retained earnings (uncovered loss) for the reporting period	470	2,047,849	(2,047,849)	-
Total section III	490	17,247,974	(2,622)	17,245,352
<i>IV. LONG-TERM LIABILITIES</i>				
Other long-term liabilities	520	1,449,667	(656)	1,449,011
Total section IV	590	19,987,231	(656)	19,986,575
<i>V. SHORT-TERM LIABILITIES</i>				
Accounts payable	620	4,949,471	(34,768)	4,914,703
trade accounts payable	621	3,576,644	(8,386)	3,568,258
advances received	622	425,181	(34)	425,147
taxes and levies payable	625	239,424	(30,927)	208,497
other payables	626	697,319	4,579	701,898
Total section V	690	10,141,883	(34,769)	10,107,114
BALANCE	700	47,377,088	(38,047)	47,339,041

Retained earnings for 2006 in the amount of 2,047,849 is transferred from the item "Retained earnings (uncovered loss) of the reporting period" to the item "Retained earnings (uncovered loss) for past years".

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In accordance with the amended Accounting Statement “Accounting for Assets and Liabilities Denominated in Foreign Currency” (PBU 3/2006), opening balances’ amounts denominated in foreign currency and payable in Rubles have been recalculated in accordance with the official rate for the foreign currency established by the Central Bank of the Russian Federation as of January 1, 2007:

- the amount in item 145 “Deferred tax assets” was increased by 444;
- the amount in item 150 “Other non-current assets” was decreased by 7,563;
- the amount in item 621 “Trade accounts payable” was decreased by 8,386;
- the amount in item 622 “Advances received” was decreased by 34;
- the amount in the item 626 “Other payables” increased by 4,579;
- the amount in item 460 “Retained profit (uncovered loss) of past years” was decreased by 2,622 which is the balance of the corrections described above.

Cost of telecommunications services card payment vehicles in the amount of 35,623 was excluded from the item “Prepaid expenses” and transferred to the item “raw materials, consumables and other similar assets.”

In connection with the addition to the Balance Sheet of item 221 “VAT on purchased assets where reimbursement is expected more than 12 months after the reporting date” a part of VAT in the amount of 213,796 was transferred from item 222 “VAT on purchased assets where reimbursement is expected within 12 months after the reporting date” to the item 221 “VAT on purchased assets where reimbursement is expected more than 12 months after the reporting date”. Item 220 “VAT on purchased assets” was not changed.

Amounts in item 243 “Other debtors” and item 625 “Taxes and levies payable” were decreased by 30,927 because of a reduction of VAT amount to correctly reflect VAT liabilities.

The amount in item 243 “Other debtors” was decreased by 2,439 in connection with the transfer of data from item 242 “Prepaid expenses.”

The amount of discount on the long term portion of paper credits was transferred from item 216 “Prepaid expenses” to item 150 “Other non-current assets” in the amount of 973,400.

The changes in the opening balance do not entail a correction in the comparative data for 2006 in the Profit and Loss Statement.

Changes in the comparative information for 2006 in the Profit and Loss Statement

Indicator		Prior to correction	Corrections	After corrections
I. Operating income and expenses				
Revenue from sale of goods, products, works, services	010	28,395,257	-	28,395,257
including that from sale of: telecommunications services	011	26,606,202	30,452	26,636,654
Cost of goods, products, works, services sold	020	(21,212,271)	3,402	(21,208,869)
including that from telecommunications services	021	(20,398,391)	3,402	(20,394,989)
Profit (loss) from operations	050	7,182,986	3,402	7,186,388
II. Other income and expenses				

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Other income	090	1,465,232	(3,089)	1,462,143
Other expenses	100	(3,155,230)	(313)	(3,155,543)

The amount in item 011 “Revenue from sale of telecommunications services” was increased by 30,452 in connection of the transfer of income from optic fiber lines’ lease from the item “Revenue from services on non-operating activities.”

The amount in items 020 and 021 “Cost of goods, products, works, services sold including that from telecommunications services” was decreased by 23,402 in connection with transfer of a number of expenses to the item 100 “Other expenses”.

Exchange rate differences were reduced by 3,089; it led to changes in item 090 “Other income” and item 100 “Other expenses”.

Charges to NPF Telecom-Soyuz non-governmental pension fund for the sum of 20,000 on item 100 “Other expenses” were transferred to item 120 “Cost of goods, products, works, services sold” (see items 7 and 8 of the present Explanatory Note).

5. Notes to Significant Balance Sheet items

5.1. Fixed Assets (item 120 of the Balance Sheet)

Change in the value of fixed assets:

Indicator	2007	2006
Historical cost of fixed assets as of beginning of the year	54,595,405	51,398,727
Increase in value of fixed assets, total	5,823,035	3,820,834
<i>including:</i>		
purchase of new assets	790,865	718,247
construction, modernization and reconstruction of the existing items	4,949,410	2,896,147
received free of charge	9,428	5,557
other additions	73,332	200,883
Decrease in value (disposal) of fixed assets, total	(375,440)	(624,156)
<i>including:</i>		
sale of fixed assets	(103,033)	(78,365)
write-off of fixed assets	(250,071)	(510,066)
reconstruction (partial liquidation) of fixed assets	(15,839)	(11,977)
other disposals	(6,497)	(23,748)
Historical cost of fixed assets as of the end of the year	60,043,000	54,595,405
Depreciation accumulated as of the beginning of the year	(23,112,935)	(19,615,710)
depreciation accrued over the period	(3,954,250)	(3,999,706)
Depreciation of disposals:		
depreciation of items sold	62,556	58,023
depreciation of items written off	245,636	432,928
depreciation of other disposals	4,897	11,530
Depreciation accumulated as of the end of the year	(26,754,096)	(23,112,935)
Net fixed assets value as of the beginning of the year	31,482,470	31,783,017
Net fixed assets value as of the end of the year	33,288,904	31,482,470

The largest portion of purchased (90.88%) fixed assets is represented by industrial equipment (switching units and other telecommunications network equipment). New assets are represented

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by switching units (30.84%), other telecommunications network equipment (29.41%) and telecommunications lines (22.48%).

The historical cost of fixed assets, which are depreciated by 100%, but still remain in operation as of December 31, 2007, is 8,316,855 (7,096,661 as of December 31, 2006).

The historical cost of fixed assets, which are in the process of registration and put into operation as of December 31, 2007 is 810,172 (744,153 as of December 31, 2006).

Fixed Assets Received under Lease Contracts

As of December 31, 2007, the Company has concluded 164 financial lease contracts for the lease of switching units and other network equipment. Terms range from 26 to 60 months.

In 2007 equipment was received under financial lease contracts concluded earlier with RTK-Leasing OJSC in the amount of 63,732; the term of the contract is 60 months.

Value of fixed assets received under lease contracts:

Indicator	As of January 1, 2007	As of December 31, 2007
Fixed assets reflected on the Company's balance sheet:		
- historical cost of fixed assets	5,367,385	4,832,034
- depreciation charged on fixed assets	(2,757,101)	(3,047,829)
- book value of fixed assets	2,610,284	1,784,205
Fixed assets on the lessor's balance sheet:		
- contractual cost of fixed assets	1,857,397	4,682,950

On May 7, 2007, the Company concluded a contract with RTK-Leasing OJSC for a financial lease of a property complex for the purpose of telecommunications services provision. The amount of gross lease rate excluding insurance cost and property tax is 8.59% per annum.

On November 30, 2007, the Company concluded a contract with RTK-Leasing OJSC for a financial lease of a property complex for the purpose of universal services provision. The amount of gross lease rate excluding insurance cost and property tax is 11.48% per annum.

The total amount of payments under these agreements will be 2,917,272 within their terms (36 months and 60 months). The equipment prior to transfer of the ownership's right to the Company is reflected in the Company's Off Balance Sheet.

Amounts of future lease payments:

Term of payments	Amounts of payment, total	including:	
		on fixed assets on the Company's balance sheet (included in liabilities in items 520 and 620 of the Balance Sheet)	on fixed assets on the lessor's balance sheet (not included in liabilities)
2008	2,609,452	863,530	1,745,922
2009 - 2013	2,788,052	601,297	2,186,755
TOTAL	5,397,504	1,464,827	3,932,677

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5.2. Construction in Progress (item 130 of the Balance Sheet)

Indicator	As of January 1, 2007	As of December 31, 2007
Investments into non-current assets, total:	1,870,318	1,168,397
<i>including:</i>		
construction, modernization and reconstruction of fixed assets	1,807,667	1,153,040
investments into fixed assets under leasing contracts	53,586	11,211
acquisition of fixed assets	2,542	2,542
acquisition of fixed assets under leasing contracts	4,919	1,379
R&D in progress	203	225
other	1,401	-
Equipment to installation	371,351	381,992
TOTAL	2,241,669	1,550,389

Change in value of investments into fixed assets

Indicator	2007	2006
Investments into non-current assets as of beginning of the year	1,870,318	1,734,330
Investments for the reporting period, total	5,265,635	3,775,463
<i>including:</i>		
acquisition of new assets	323,913	406,820
construction, modernization and reconstruction of fixed assets	4,932,294	3,358,044
received free of charge	9,428	5,556
other income	-	5,043
Disposal of investments for reporting period, total	(5,967,556)	(3,639,475)
<i>including:</i>		
put into operation	(5,749,702)	(3,614,403)
sold	(39,064)	(4,818)
written off	(178,216)	(8,611)
other disposals	(574)	(11,643)
Investments into non-current assets as of the end of the year	1,168,397	1,870,318

The Company is carrying out construction and reconstruction in 800 investment projects.

Out of the total amount of capital expenditures on construction, modernization and reconstruction of fixed assets for 2007, capital investments in the amount of 1,037,869 were made to bring the Company's network into conformity with the requirements of the regulatory acts on building telecommunications networks and traffic transmission, and also in the sum of 511,516 in connection with fulfillment of the Company's liabilities related to the contracts for universal telecommunications services and in the amount of 704,197 for a program of Internet access provision to educational organizations of the Russian Federation within the framework of Education National Project.

In 2007 the Company capitalized the value of construction in progress interests on borrowings in the amount of 306 (65,242 in 2006) in accordance with rates specified in the terms of loan agreements signed for funds invested into the commissioned projects.

5.3. Investments in Subsidiaries, Associates and Other Companies (items 141, 142, 143 of the Balance Sheet)

Investments in subsidiaries, associates and other companies:

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Company name	Type of activities	Value of investments	Share in authorized capital, %	Share of voting stock, %
As of January 1, 2007				
Subsidiary companies				
- RTS OJSC	telephony, data transmission, telematic services, rent of communications channels, system integration	1,449,085	100	100
- Operatorsky Tsentr CJSC (ATS CJSC until December 4, 2007)	telephony, data transmission, telematic services	150,514	100	100
- TverTelecom LLC	local telephone communications, data transmission, telematic services	17,247	85	85
- Vladimir Teleservice CJSC	Internet, IP-telephony services	2,948	100	100
- MobilCom LLC	mobile radiotelephone communications MRT-1327, ST-11	2,250	100	100
- Telecom Stroi LLC	utilities maintenance, boiler unit operation, civil engineering, cleaning	511	100	100
- Telecom of Ryazan Region CJSC	switch services for subscribers of Ryazan affiliated branch of CenterTelecom OJSC	486	50.9	50.9
- Telecom Terminal LLC	sales and repair of terminal devices	260	100	100
- Teleport Ivanovo CJSC	sales of telecommunications means, data transmission network services, cellular communications	151	100	100
- Vladimirsky Taksofon LLC	local communications services through universal card phones	93	51	51
- CenterTelecom Service CJSC	local communications services, data transmission, rent of channels	75	74.9	74.9
- PVP Svyaz-Service-Irga LLC	design and laying of communication lines, technological telecommunications equipment installation, telecommunications equipment commissioning works; sales and procurement, agency, marketing activities; repair	15	70	70

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	of devices and equipment			
Provision for impairment		(1,072,582)		
Total for subsidiary companies (item 141)	-	551,053	-	-
Associated companies				
- TeleRossVoronezh CJSC	rent of telecommunications means	585	50	50
- Rinfotels Telecommunication Company OJSC	data transmission on X25, X28 protocols, Frame Relay, TCP/IP, Internet, telephony	25	26	26
Provision for impairment in value		(585)		
Total for associated companies (item 142)	-	25	-	-
Other entities				
- Svyazintek OJSC	Project management, consulting services, organization of information systems	20,604	18	18
- Costars Insurance Company CJSC	life insurance for telecommunications companies' employees	2,815	9.30	9.30
- AKB Svyaz-Bank OJSC	banking	1,796	0.08	0.08
- KB Tulsy Promyshlennik OJSC	banking	587	0.41	0.41
- Oskoltelecom CJSC	cable TV	472	12.41	12.41
- KB Link-Bank OJSC	banking	300	4.90	4.90
- Comset OJSC	cable TV	155	5.17	5.17
- Teleservice OJSC	cable TV	72	6.60	6.60
- NTC Comset CJSC	R&D	35	11.09	11.09
- Startcom CJSC	R&D	19	3.70	3.70
- Optimum-Svyaz CJSC	sale of accessories for mobile phones	10	10	10
- Comincom-Chernozemie CJSC	creation and operation of designated telecommunications networks	5	0.06	0.06
- Informsvyaz-Chernozemie Information Company CJSC	data transmission: IP-telephony, Internet access, digital communications channels	4	4	4
- Cellular Communications of Chernozemie CJSC	NMT-450 mobile telecommunications	0,051	0.076	0.076
Provision for impairment in value		(165)		
Total for other entities (item 143)	-	26,709	-	-
Total as of January 1, 2007		577,787	-	-
As of December 31, 2007				

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Subsidiary companies				
- RTS OJSC	telephony, data transmission, telematic services, rent of communications channels, system integration	1,449,085	100	100
- Operatorsky Tsentr CJSC	telephony, data transmission, telematic services	150,514	100	100
- Telecom-R CJSC	telephony	28,900	100	100
- TverTelecom LLC	local telephone communications, data transmission, telematic services	17,247	85	85
- Vladimir Teleservice CJSC	Internet, IP-telephony services	2,948	100	100
- MobilCom LLC	mobile radiotelephone communications MRT-1327, ST-11	2,250	100	100
- Telecom Stroi LLC	utilities maintenance, boiler unit operation, civil engineering, cleaning	511	100	100
- Telecom of Ryazan Region CJSC	switch services for subscribers of Ryazan affiliated branch of CenterTelecom OJSC	486	50.9	50.9
- Telecom Terminal LLC	sales and repair of terminal devices	260	100	100
- Teleport Ivanovo CJSC	sales of telecommunications means, data transmission network services, cellular communications	151	100	100
- Vladimirsky Taksofon LLC	local communications services through universal card phones	93	51	51
- CenterTelecom Service CJSC	local communications services, data transmission, rent of channels	75	74.9	74.9
- PVP Svyaz-Service-Irga LLC	design and laying of communications lines, technological telecommunications equipment installation, telecommunications equipment commissioning works; sales and procurement, agency, marketing activities; repair of devices and equipment	15	70	70
Provision for impairment		(1,103,734)		
Total for subsidiary companies	-	548,801	-	-

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(item 141)				
Associated companies				
- Rinfotels Telecommunication Company OJSC	data transmission on X25, X28 protocols, Frame Relay, TCP/IP, Internet, telephony	25	26	26
Total for associated companies (item 142)	-	25	-	-

Other entities

- Svyazintek OJSC	Project management, consulting services, organization of information systems	20,604	18	18
- Costars Insurance Company CJSC	life insurance for telecommunications companies' employees	2,815	9.30	9.30
- AKB Svyaz-Bank OJSC	banking	1,796	0.08	0.08
- KB Tulsy Promyshlennik OJSC	banking	300	4.90	4.90
- Comset OJSC	cable TV	155	5.17	5.17
- NTC Comset CJSC	R&D	35	11.09	11.09
- Startcom CJSC	R&D	19	3.70	3.70
- Informsvyaz-Chernozemie Information Company CJSC	data transmission: IP-telephony, Internet access, digital communications channels	4	4	4
Total for other entities (item 143)	-	25,728	-	-
Total as of December 31, 2007		574,554	-	-

Income received in the form of dividends from financial investments is reflected in clause "Income from participation in other entities" of the Profit and Loss Statement in the amount of 26,752 (15,472 in 2006).

The Company sold shares of the following companies in 2006:

- AKB Tulsy Promyshlennik CJSC
- Chernozemie Cell Telecommunications OJSC
- TeleRossVoronezh CJSC
- Comincom-Chernozemie CJSC.

The value of the shares disposed of in the amount of 1,178.21, and also additional expenses in the amount of 20, were included in other expenses and shown in item 100 of the Profit and Loss Statement. Proceeds from sale are 2,196.13 and are shown in item 090 of the Profit and Loss Statement.

In accordance with the decision of the Company's Board of Directors, CenterTelecom OJSC acquired 100% in Telecom-R CJSC (100 common shares) for 28,900 in December 2007. The stake was purchased with the purpose of taking control of CenterTelecomService CJSC since Telecom-R CJSC owned 25.1% in CenterTelecomService's authorized capital.

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5.4. Other Long-Term and Short-Term Financial Investments (item 144 and 250 of the Balance sheet)

Other financial investments include (item 144 of the Balance Sheet):

Entity name	Financial investments' type	Book value as of reporting date	Annual interest rate	Maturity date
As of January 1, 2007				
RTK-Leasing OJSC	promissory note	1,091,045	discount	from 24.01.2008 up to 24.12.2011
AK Voronezh	promissory note	104	discount	28.02.2012
AK Voronezh	promissory note	58	discount	14.03.2011
Contribution in joint venture	-	6,491	-	-
Provision for impairment in value	-	(3,304)	-	-
Total		1,094,394	-	-
As of 31 December, 2007				
RTK-Leasing OJSC	promissory note	389,178	discount	c 24.01.2009 по 24.12.2011
AK Voronezh	promissory note	104	discount	28.02.2012
AK Voronezh	promissory note	58	discount	14.03.2011
Total		389,340	-	-

Other short-term financial investments include (item 250 of the Balance Sheet):

Entity	Type of financial investments	Value as of reporting date	Annual interest rate	Maturity date
As of January 1, 2007				
RTK-Leasing OJSC	Promissory note	834,025	Discount	From January 24, to December 24, 2007
Promsvyazbank CJSC	Deposit	180,036	5.5%	June 29, 2008
Svyaz-Bank OJSC	Deposit	180,000	5.5%	July 1, 2008
Total		1,194,061	-	-
As of December 31, 2007				
RTK-Leasing OJSC	Promissory note	701,867	Discount	From January 24, to December 24, 2008
Svyaz-Bank OJSC	Deposit	15,000	5.5%	July 1, 2008
RTS OJSC	Borrowings	100,397	11%	May 14, 2008, June 17, 2008, July 15, 2008, August 14, 2008, November 14, 2008
RTS OJSC	Debt acquired on basis of assignment of	1,802	-	2008

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	receivables			
Other	Shares for stock broking	553	-	2008
Total		819,619		

Nominal value of the promissory notes of RTK-Leasing OJSC is 1,382,221 as of December 31, 2007 (2,269,969 as of December 31, 2006).

In 2007 the shares in subsidiary, associated and other companies owned by the Company were not traded in the securities market, hence the Company did not correct the value of the shares.

Loans Given

In 2007 the Company in accordance with a decision of the Board of Directors gave a loan in the amount of 116,541 to Russian Telecommunications Network OJSC on commercial terms. Russian Telecommunications Network's amounts owed on the loan were 100,397 as of December 31, 2007.

Accounts Receivable Acquired on the Basis of Provision of Debt Recovery Rights

In September 2007 the Company acquired from RTS OJSC for 1,802 a right of recovery of Tvertelecom LLC's receivables in the sum of 6,184.

Contributions in Joint Ventures

The Company's contribution in joint activities with Topsnabinvest LLC and Bowling-Center LLC in the form of a joint venture for the formation, development and commercial operation of a CDMA mobile network switching system in Ivanovo and the Ivanovo region was reflected in item 144. The contract was concluded in 1998 for 12 years. The Company's share in joint liabilities reached 6,491, the share in joint expenses was 30%, and the share in joint income was 30%. In 2007, the joint venture contract was canceled.

Provision for Impairment of Financial Investments

Provision for impairment of financial investments in the authorized capital of subsidiary, associated and other entities:

Entity name	Provision as of January 1, 2007	Provision formed in 2007	Provision used in 2007	Provision recovered in 2007	Provision as of December 31, 2007
Provision for subsidiary and associated companies:					
- RTS OJSC	1,053,085	-	-	-	1,053,085
- Operatorsky Tsentr CJSC	-	30,641	-	-	30,641
- TverTelecom LLC	17,247	-	-	-	17,247
- Telecom-Stroi LLC	-	511	-	-	511
- TeleRoss-Voronezh CJSC	585	-	(585)	-	-
- MobilCom LLC	2,250	-	-	-	2,250
Provision for other entities:					
- Comset OJSC	155	-	-	(155)	-

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- Optimum-Svyaz CJSC	10	-	-	(10)	-
Contributions in joint operations	3,304	-	(3,304)	-	-
Provision, total	1,076,636	31,152	(3,889)	(165)	1,103,734

Expenses related to the formation of a Provision for impairment of long term and short term financial investments are reflected in item 100 "Other expenses" in the amount of 31,152 (1,056,553 in 2006). The amount of restored provision for disposed financial investments is charged to decreased expenses reflected in item 100 "Other expenses" in the sum of 4,054 (1,331 in 2006).

Based on considerations of prudence, the Company created a provision for impairment of investments in Operatorsky Tsentr CJSC (ATS CJSC prior to December 4, 2007) as of December 31, 2007.

Indicators of a decrease in value (impairment) of Operatorsky Tsentr CJSC as a subsidiary company were revealed. The decrease in value (impairment) is connected with the transfer of ATS CJSC's main business to the Company by means of sale of its telecommunications network and transfer of subscriber base to the Company. Operatorsky Tsentr CJSC's activities related to the provision of local and Inter-zone telecommunications services have in fact stopped. Operatorsky Tsentr CJSC's operator business is limited to data transmission and telematic services (Internet access related services).

The total provision for impairment of financial investments was calculated as an amount of sustainable decrease of the subsidiary company's market value to its book value and reached 30,641.

5.5. Deferred Tax Assets (item 145 of the Balance Sheet)

Movement of deferred tax assets in 2007

Indicator	2007	2006
Balance as of beginning of the year	408,884	296,658
Created over the reporting period on deductible temporary differences	371,664	153,202
Reflected in accordance with deductible temporary differences for previous period	(37,630)	-
Repaid to reduce tax payments	(373,588)	(40,193)
Balance correction on basis of deductible temporary difference in connection with recalculation in accordance with PBU 3/2000	-	444
Written off in disposals	(724)	(1,227)
Balance as of end of the year	368,606	408,884

5.6. Other Non-Current Assets (item 150 of the Balance Sheet)

Indicator	As of January 1, 2007	As of December 31, 2007
Deferred expenses for software purchase	2,810,938	4,158,970
Advances paid for purchase and creation of non-current assets	438,051	346,187
Discount on long-term part of promissory note issues	973,400	564,923
Other	2,737	1,502
Total	4,225,126	5,071,582

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The decrease in discount on long term paper credits by 408,477 is connected with a transfer of the amount to short term paper credits.

Oracle E-Business Suite Software

The Company's expenses on the purchase and installation of Oracle E-Business Suite corporate management software (hereinafter "OeBS"), the purchase of which was approved by the Company's Board of Directors in 2003, are reflected in deferred expenses on the purchase of software products and databases:

Indicator	2007	2006
Cost of Oracle E-Business licenses and its implementation:		
- as of beginning of the year	1,372,370	1,211,638
- implementation costs	541,682	160,732
- as of end of the year	1,914,052	1,372,370

Expenses on the purchase and installation of Oracle E-Business Suite software will be written off to operating expenses after the start of the software operation within its useful life, which is established to be in the range of 10 years. The Company plans to complete the implementation of this system by 2009.

Amdocs Billing Suite Software

The Company's expenses on the purchase of Amdocs Billing Suite software for the purpose of implementation of a unified automated billing system in the amount of 942,047 and expenses on the implementation of the software in the amount of 502,920 are included in deferred expenses on the purchase of software products and databases. As of the beginning of the year the specified expenses reached 942,047 and 318,827 respectively.

The purchase of Amdocs Billing Suite software was approved by the Company's Board of Directors in 2004. In December 2005, the Company began the system's implementation.

Expenses on the purchase and installation of Amdocs Billing Suite software will be written off to operating expenses after the start of the software operation in proportion to the value of modules implemented within the modules' useful life, which is established to be in the range of 10 years.

5.7. Inventories

Structure of Raw Materials, Consumables and Other Similar Assets Excluding Provision for Inventory Value Impairment (item 211 of the Balance Sheet)

Indicator	As of January 1, 2007	As of December 31, 2007
Cable	127,938	114,455
Spare parts	57,657	55,334
Construction materials	34,060	40,204
Implements and tools	47,096	41,647
Consumables on linear cable structures	84,546	59,252
Expendable materials and components for telecommunications	28,016	38,997
Appliances and devices	38,530	37,724
Stationery	30,250	27,205

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Office supplies and components for office equipment	35,582	26,128
Fuel	12,775	8,810
Other	29,271	65,850
Total:	525,721	515,606

Expenses for the provision for impairment of inventories were 3,356 in 2007 (14 in 2006) and are referred to under other expenses in the Profit and Loss Statement.

Deferred Expenses (item 216 of the Balance Sheet)

The decrease of 194,854 in deferred expenses is mainly an acknowledgement of a discount on paper credits included in interest expense.

5.8. VAT on Purchased Assets (item 220 of the Balance Sheet)

The considerable decrease in VAT by 312,467 is due mainly to a decrease in VAT on commissioned capital construction items and leasing liabilities.

5.9. Short-Term Trade Accounts Receivable (item 241 of the Balance Sheet)

Indicator	Total receivables	Provision for doubtful debts	Receivables net of provision for doubtful debts
As of January 1, 2007			
Settlements with consumers on products for core activities:			
with individuals	1,030,781	(95,689)	935,092
with state-financed organizations	156,023	(25,392)	130,631
with commercial organizations	278,102	(41,418)	236,684
with telecommunications operators	1,108,453	(102,128)	1,006,325
with social security authorities for reimbursement of expenses related to granting privileges to certain categories of subscribers	608,060	(608,060)	-
Settlements with customers for non-core activities	62,307	(27,735)	34,572
Settlements for assets sold	17,729	(917)	16,812
Total as of January 1, 2007	3,261,455	(901,339)	2,360,116
As of December 31, 2007			
Settlements with consumers on products for core activities:			
with individuals	1,176,921	(108,924)	1,067,997
with state-financed organizations	164,262	(18,465)	145,797
with commercial organizations	356,315	(45,670)	310,645
with telecommunications operators	1,225,965	(127,766)	1,098,199
with social security authorities for reimbursement of expenses related to the granting of privileges to certain categories of subscribers	162,100	(162,100)	-
Settlements with customers for non-core activities	88,782	(32,245)	56,537

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Settlements for assets sold	4,369	(592)	3,777
Total as of December 31, 2007	3,178,714	(495,762)	2,682,952

Receivables from social security authorities for reimbursement of expenses related to the granting of privileges to certain categories of subscribers account for 5.1% of the total amount of trade accounts receivable (18.64 % as of January 1, 2007). These accounts receivable emerged before January 2005, when Article 47 of Federal Law No. 126-FZ, dated July 7, 2003, "On Telecommunications" was brought into force. This Article changed the procedure for granting privileges to individuals in the provision of services of telecommunications organizations.

In 2007 the Company recovered 396,590 from the Federal Budget in judicial proceedings as a part of receivables from social security authorities. In December 2007 the Company assessed the possibility of payment of debts on compensation for expenses related to granting privileges to certain categories of subscribers in December 2006, considering possible recovery of debts as a result of legal claims. The provision for doubtful debts as of December, 2007 was 162,100.

As of December 31, 2007 an increase in accounts receivable on settlements for telecommunications services with individuals and commercial organizations was mainly caused by an increase in volumes of services rendered to these customer categories. For 2007 accounts receivable on settlements with individuals increased 14.2%, at the same time growth of income on settlements with this category of customers was 19.5%. Accounts receivable on settlements with commercial organizations rose 31.2%, which at the same time income on settlements with this category of customers rose 38%.

Cancellation of advance payments from individual subscribers who switched to the time based payment system led to an increase in accounts receivable on settlements with individuals.

5.10. Prepaid Expenses (item 242 of the Balance Sheet)

Prepaid expenses are represented net of provision for doubtful debts in the amount of 4,451 (4,228 in 2006). The 148,426 increase in prepaid expenses is mainly due to advance payments related to the Company's ongoing operations for services rendered after January 1, 2008.

5.11. Other Accounts Receivable to Be Paid Within 12 Months after the Reporting Date (item 243 of the Balance Sheet)

Indicator	As of December 31, 2007	As of December 31, 2007
Settlements on taxes and duties	464,509	341,517
Settlements with attorneys (factors, agents)	82,001	143,176
Settlements on claims	14,743	22,051
Settlements on social insurance and security	11,685	16,201
Settlements with personnel on other operations	7,292	5,551
Settlements on property and personal insurance	11,611	3,776
Settlements with advance holders	2,568	1,489
Settlements on due income	5,776	987
Settlements with personnel on salaries	173	141
Other settlements	113,049	113,967
Provision for other accounts receivable	(75,251)	(75,969)
Total	638,156	572,887

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The increase in other accounts receivable by 65,269 is mainly related to a 122,992 decrease in taxes and levies payable and a 61,175 increase in the amount of payables to attorneys (factors, agents). The decrease in taxes and levies payable is mainly connected with a decrease in advance payments of profit tax receivables.

The increase in the amount of payables to attorneys (factors, agents) is mainly related to the change in settlements with Federal State Unitary Enterprise Russian Post on an agency contract concluded in August 2007.

Movement of Provision for Doubtful Debts on Accounts Receivable in 2007 Including Other Accounts Receivable and Prepaid Expenses:

Indicator	Amount
Provision as of January 1, 2007	984,296
Provision established in 2007	152,979
Provision used in 2007	(73,385)
Provision restored in 2007	(477,768)
Provision as of December 31, 2007	586,122

5.12. Charter Capital (item 410 of the Balance Sheet)

Charter capital amounts to 6,311,999 and is comprised of common and preferred shares with the par value of RUR 3.00 each:

Type of a share	Number of shares in circulation, thousand	Total, nominal value
Common	1,578,006,833	4,734,020,499
Preferred	525,992,822	1,577,978,466
Total	2,103,999,655	6,311,998,965

Shareholders	Share in authorized capital, %	Common shares		Preferred shares	
		Number (items)	%	Number (items)	%
Legal entities, total	92.56	1,491,001,525	94.51	456,565,722	86.81
including:					
- Svyazinvest OJSC	38.02	799,867,813	50.69	-	-
- subsidiary and associated companies	0.01	239,766	0.02	-	-
including:					
- Operatorsky Tsentr CJSC	0.01	239,766	0.02	-	-
- registered entities holding more than 1% of the authorized capital, total	51.60	648,293,754	41.08	437,548,167	83.19
including:					
- Depository Clearing Company CJSC (nominee)	13.66	159,791,946	10.13	127,655,117	24.27
- UBS NOMINEES CJSC (nominee)	7.65	61,950,858	3.93	99,003,260	18.82
- KB CITIBANK CJSC	9.96	55,551,757	3.52	153,981,066	29.27

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(nominee)					
- ING Bank (Eurasia) CJSC (nominee)	10.04	187,547,723	11.89	23,774,272	4.52
- National Depository Center Not-for-Profit Partnership	10.29	183,451,470	11.63	33,134,452	6.30
- other legal entities, total	2.93	42,600,192	2.70	19,017,555	3.62
Individuals, total	7.44	87,005,308	5.51	69,427,100	13.20
including:					
- Company's employees	2.62	28,000,501	1.77	27,099,274	5.15
- other	4.82	59,004,807	3.74	42,327,826	8.05
Total	100	1,578,006,833	100	525,992,822	100

As of December 31, 2007, authorized capital of the Company is paid up in full.

Preferred shares do not include voting rights. They cannot be converted into common shares. An annual dividend on preferred shares is paid in the amount of 10% of the Company's net profit for the previous financial year divided by the number of shares.

On 22 August, 2001, the Company registered a Level 1 American Depository Receipt (ADR) issue. Each depository receipt is equal to 100 common shares of the Company. The Federal Financial Markets Service of the Russian Federation, by Order No. 58/pz-i issued January 19, 2005, gave permission for the circulation of 623,312,699 common shares of the Company in the form of ADRs. As of December 31, 2007, the Company registered an issue of 454,600 ADRs (420,989 as of December 31, 2006) and deposited 45,460,000 common shares (42,098,900 shares as of December 31, 2006) or 2.88% of all issued preferred shares (2.67% as of December 31, 2006).

Registered ADRs circulated for 2006-2007:

	ADRs (number)	Equivalent number of common shares	Common shares, %	Authorized capital, %
January 1, 2006	417,494	41,749,400	2.65	1.98
Increase in 2006	3,495	349,500		
January 1, 2007	420,989	42,098,900	2.67	2.00
Increase in 2007	33,611	3,361,100		
December 31, 2007	454,600	45,460,000	2.88	2.16

To date the Company's ADRs are traded on the following stock exchanges:

Stock Exchange Name	CUSIP (WKN)	ADR ticker	ISIN
Over-the-counter(OTC) Market (USA)	15548M108	CRMUY	US15548M1080
Frankfurt Stock Exchange (FSE)	798404	CRMUy.F	US15548M1080
Berlin Stock Exchange (BerSE)	798404	CRMUy.BE	US15548M1080

5.13. Own Shares Repurchased from Shareholders (item 440 of the Balance Sheet)

The Company did not own any repurchased shares as of December 31, 2007.

5.14. Reserve Capital (item 430 of the Balance Sheet)

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In accordance with the resolution of the General Shareholder Meeting, dated June 18, 2007, in 2007 the Company increased the reserve capital in the amount of 102,393 from the net profit of 2006.

According to the Charter of the Company, the reserve fund is created in an amount not less than 5 percent of the authorized capital of the Company. The Company's reserve fund is created by obligatory annual contributions of at least 5 percent of the Company's net profit until the fund's specified amount is reached.

5.15. Dividends

In 2007, in accordance with the resolution of the General Shareholders Meeting, dividends for the year ended December 31, 2006, were declared in the amount of RUR 0.1999621 per common share and RUR 0.38933 per preferred share.

Amounts payable in dividends are:

Type of share	Number of shares (items)	Dividend per 1 share, RUR	Total amount of dividends, RUR
For 2005			
Preferred shares	525,992,822	0,1270937	66,850,374
Common shares	1,578,006,833	0,0674191	106,387,798
Total	2,103,999,655		173,238,172
For 2006			
Preferred shares	525,992,822	0,38933	204,784,785
Common shares	1,578,006,833	0,1999621	315,541,561
Total	2,103,999,655		520,326,346

The decrease in retained profit by the dividend amount for 2006 is reflected in the attached financial statements. Dividends for 2007 are not reflected in the attached financial statements. They will be reflected as a decrease in retained profit for the year ended December 31, 2008, after their approval at the annual General Shareholder Meeting of the Company.

5.16. Loans and Borrowings (items 510 and 610 of the Balance Sheet)

Indicator	As of January 1, 2007	As of December 31, 2007
Long term debt		
Bank loans		
Bank loans, RUR	-	1,125,000
Bank loans, US\$	3,028,077	2,822,813
Loans, total (item 511)	3,028,077	3,947,813
Borrowings		
Series 04 and 05 bonds, RUR	8,634,572	5,633,864
Promissory notes issued, RUR	5,317,795	4,505,972
Other borrowings		
borrowings, RUR	103,919	79,648
borrowings, EUR	328,608	255,240
Borrowings, total (item 512)	14,384,894	10,474,724
Long term loans and borrowings, total (item 510)	17,412,971	14,422,537
Short term debt		
Bank loans		

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Bank loans, RUR	-	3,462
Bank loans, US\$	43,493	40,545
Bank loans, EUR	3,609	-
Loans, total (item 611)	47,102	44,007
Borrowings		
Series 04 and 05 bonds, RUR	373,113	3,369,214
Promissory notes issued, RUR	3,403,557	811,822
Other borrowings		
borrowings, RUR	1,900	4,272
borrowings, EUR	82,197	85,127
Borrowings, total (item 612)	3,860,767	4,270,435
Short term loans and borrowings, total (item 610)	3,907,869	4,314,442
Including short term portion of long term loans and borrowings	3,500,565	3,908,039

Main lenders

Indicator	Long term		Short term		Interest rate, %
	Jan 1, 2007	Dec 31, 2007	Jan 1, 2007	Dec 31, 2007	
Bank loans					
Deutsche Bank AG (US\$116.652 million loan liabilities, maturity date – October 31, 2010)	3,028,077	2,822,813	43,493	40,545	8.3
- The Ministry of Finance of the Russian Federation (EUR 9 472 million loan liabilities, maturity date – January 1, 2012, RUR690.347 million loan security)	328,608	255,240	82,197	85,127	2.0
Sberbank RF (RUR1,128.462 million loan liabilities, maturity date – April 19, 2009)	-	1,125,000	-	3,462	7.9

Long-term loans and borrowings repayment schedule as of 31 December 2007

	Loans	Bond issues	Promissory notes issues	Other borrowings	Total
Within 2009	1,125,000	5,623,345	1,644,424	90,418	8,483,187
Within 2010	2,822,813	-	1,843,454	99,992	4,766,259
Within 2011	-	8,726	1,018,094	99,550	1,126,370
Within 2012	-	1,793	-	14,376	16,169
After 2012	-	-	-	30,552	30,552
Total	3,947,813	5,633,864	4,505,972	334,888	14,422,537

Credit Liabilities to the Ministry of Finance of the Russian Federation

In 1995-1996, the Ministry of Finance of the Russian Federation provided long-term finance to the Company for the purchase of telecommunications equipment from various foreign vendors. Vnesheconombank acted as agent providing the credit to the Company on behalf of the Government of the Russian Federation. Currency of the agreement was the Euro.

In December 2006, at the stage of litigation, the Company entered into an amicable agreement with the Ministry of Finance of the Russian Federation, which was approved by the Arbitration Court of Moscow Region on March 12, 2007. The amicable agreement is effective from

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December 27, 2006, and provides for settlement through restructuring of debt with simultaneous write-off of debt on late payment interest in the amount of EUR 5,068,169.86 accrued for late performance of payment obligations. Income from the write-off of debt on late payment interest in the amount of 175,386 (EUR 5,068,169.86) is reported in other income of the Company for 2006 as income from the write-off of accounts payable. Payment (repayment) of the restructured debt will be made by equal installments on an annual basis until January 1, 2012.

Interest on the restructured debt is accrued in the amount of 2% per annum and is payable on an annual basis not later than December 31 of the relevant year.

In order to secure obligations under the amicable agreement, the Company entered into a property pledge agreement No. 7651/07-DO, dated March 9, 2007, with the Ministry of Finance of the Russian Federation for the total pledge value of 690,347 exclusive of VAT. The pledge agreement expires upon performance of the obligations under the amicable agreement.

As of December 31, 2007, the total amount of the restructured debt to the Ministry of Finance of the Russian Federation was 340,367 (EUR 9.472 million), including the short term portion and interest in the amount of 85,127 (EUR 2.369 million).

Sberbank's Loan

In April 2007 the Company concluded a contract with the Savings Bank of the Russian Federation (Sberbank) for the provision of a RUR3 billion revolving loan. The loan is to be repaid by April 19, 2009. Interest on the debt is accrued in the amount of 7.9% per annum and is payable on an annual basis. This loan is not secured.

Loan with Further Issue of Credit Notes

In 2006 the Company raised a loan in the amount of 3,028,077 (USD115 million). The loan originator (initial lender) is Deutsche Bank AG. After provision of the loan, the originator issued credit notes.

The loan is granted for 4 years and is subject to repayment on October 31, 2010. Interest rate on the loan is fixed at 8.34% per annum in dollars and includes margin in the amount of 3.20% per annum and MidSwap rate on loans denominated in US dollars in the amount of 5.14% per annum, fixed for the term of four years as from the time of loan receipt. Interest accrued is payable on the last day of the interest period, which is equal to 3 months.

Funds from the bond issue are allocated to refinance debt liabilities of the Company. This loan is not secured.

Limitations Related to Loans and Borrowings Received

In accordance with the terms of a number of loan and borrowing contracts the Company is obliged to maintain its financial performance at a pre-determined level.

In accordance with a loan agreement No. 7356/06-DO of October 25, 2006 concluded by the Company and Deutsche Bank AG, the Company is obliged to maintain the indicators of its financial performance as of the date of its quarter/annual financial statements' publication. The

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indicators shall be calculated on the basis of its quarter/annual financial statements prepared in accordance with Russian Accounting Standards/International Accounting Standards.

The Company provided for conformance with these indicators as of December 31, 2007.

Bonds

In June 2006, the FSFR of Russia registered an issue of 3,000,000 series 05 interest-bearing documentary non-convertible bonds of the Company, with nominal value of RUR1,000 each. The bonds have 10 coupons. The coupon period is 182 days.

Interest rate on the first four coupons is fixed at 8.09% per annum. The date of placement for the series 05 bond is September 05, 2006. The bonds are subject to redemption as follows:

10% of the nominal value on the 1274th day as from the day of placement;

20% of the nominal value on the 1456th day as from the day of placement;

30% of the nominal value on the 1638th day as from the day of placement;

40% of the nominal value on the 1820th day as from the day of placement.

Proceeds from the issue of the bonds are allocated for refinancing of debt liabilities of the Company. The bonds issued envisage an offer that allows the bond holders to present them to the Company on specified dates. The closest offer date is September 4, 2008.

In connection with these arrears in the amount of 3,000,000 in September 2007 was classified as short term liabilities.

In March 2007 the Company performed its obligation on the first coupon of series 05 bonds. The total amount of coupon yield charged was 121,020. The amount of coupon yield charged per bond was RUR40.34. The obligation was performed within the time specified by the Resolution on the Issue and Prospectus.

In September 2007 the Company performed its obligation on the second coupon of series 05 bonds. The total amount of coupon yield charged was 121,020. The amount of coupon yield charged per bond was RUR40.34. The obligation was performed within the time specified by the Resolution on the Issue and Prospectus.

In November 2006, the offer on the series 04 bond issue in the amount of KRUR 5,622,595 became due. Bonds were not called for redemption to the Company and due to this fact this amount was reclassified as long-term liabilities.

The interest rate on the series 04 bond issue is fixed at 13.8% per annum

The series 05 bonds are subject to redemption on August 21, 2009.

In February 2007 the Company performed its obligation on the fifth coupon of series 04 bonds. The total amount of coupon yield charged was 389,027. The amount of coupon yield charged per bond was RUR69.19. The obligation was performed within the time specified by the Resolution on the Issue and Prospectus.

In August 2007 the Company performed its obligation on the sixth coupon of series 04 bonds. The total amount of coupon yield charged was 389,027. The amount of coupon yield charged per

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bond was RUR69.19. The obligation was performed within the time specified by the Resolution on the Issue and Prospectus.

Paper credits

In 2007 the Company issued promissory notes in the total amount of 175,000 with a discount in the amount of 7,477. Maturity date is July 10, 2007. An effective rate on the promissory notes issued is 9.2% per annum.

On December 18, 2006, CenterTelecom OJSC concluded two bill deals: a promissory notes issue agreement and a sale and purchase agreement. The purpose of these agreements was to reduce expenses on lease payments under lease contracts with RTK-Leasing OJSC.

Promissory notes have been chosen as a tool to implement a reduction of the above expenses on leasing payments. In particular, the following agreements were made:

Promissory Notes Sale and Purchase Agreement provides for the purchase of promissory notes issued by RTK-Leasing OJSC.

The total principal amount under the agreement is 2,269,969 and corresponds to the amount of the Company's debt to RTK-Leasing OJSC on lease payments as of September 30, 2006, repayable between March 1, 2007, and September 30, 2011. The current value of the promissory notes of RTK-Leasing OJSC was calculated on the basis of the market rate and was 1,925,070.

Agreement of promissory notes issue provides for the issue of promissory notes of CenterTelecom OJSC. As a result of the issue of own promissory notes, CenterTelecom OJSC received an amount sufficient to purchase the promissory notes of RTK-Leasing OJSC, namely 1,925,070. Amount of the promissory notes of CenterTelecom OJSC under the agreement was defined in accordance with the analysis of their market profitability in the 4th quarter of 2006, and reached 2,201,618.

Each relevant promissory note of RTK-Leasing OJSC and CenterTelecom OJSC is to be matured one business day prior to the date of the lease payments.

The concluded deals do not directly relate to the lease contracts, but they allow the reduction of expenses of CenterTelecom OJSC for the difference between income to be received through redemption of promissory notes of RTK-Leasing OJSC and expenses on repayment of discount on the promissory notes issued.

5.17. Deferred Tax Liabilities (item 515 of the Balance Sheet)

The movement of deferred tax liabilities in 2007 was as follows:

Indicator	2007	2006
Balance as of beginning of the year	1,124,593	741,179
Created over the reporting period at taxable temporary differences	151,749	176,253
Stated at adjusted taxable difference for the previous period	81,975	222,766
Paid on increase in tax payments	(3,855)	(5,103)
Written off after items disposal	(539)	(10,502)
Balance as of end of the year	1,353,923	1,124,593

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5.18. Other Long-Term Liabilities (item 520 of the Balance Sheet)

Indicator	As of January 1, 2007	As of December 31, 2007
Settlements on equipment leasing	1,401,553	601,297
Settlements with suppliers and contractors	39,203	39,203
Other	8,255	7,194
Total	1,449,011	647,694

Long-term accounts payable decreased by 801,317 against the previous year, which is mainly due to the conversion of the long-term portion of lease payables in the amount of 854,984 to short-term debt.

5.19. Accounts Payable

Trade accounts payable (item 621 of the Balance Sheet)

Indicator	As of January 1, 2007	As of December 31, 2007
Settlements for equipment to be installed, certain fixed assets items and capital construction	1,603,055	1,102,224
Settlements on equipment leasing	1,099,578	863,530
Settlements with telecommunications operators	509,842	479,617
Settlements with suppliers and contractors on ongoing operations	323,591	390,183
Settlements with suppliers and contractors on software purchase	32,192	309,129
Total	3,568,258	3,144,683

Overdue accounts payable as of December 31, 2007 reached 123,627 (426,614 as of December 31, 2006) including:

Lender	Overdue accounts payable (more than 10,000)
Zagorodnaya Telekommunikatsionnaya Kompania CJSC	16,321
Mediatel CJSC	12,837
Compulink USP LLC	10,075

The 423,575 decrease in accounts payable on settlements with suppliers and contractors is mainly connected with a decrease in accounts payable on settlements for equipment leasing for 236,045 and repayment of accounts payable on settlements with suppliers and contractors on the acquisition and construction of fixed assets by 500,834.

Settlements on Advances Received (item 622 of the Balance Sheet)

Indicator	As of January 1, 2007	As of December 31, 2007
Settlements on advances received on core operations:	422,957	498,401
- advances received from individuals	154,862	202,348
- advances received state-financed organizations	132,007	155,692
- advances received from commercial organizations	69,669	78,851
- advances received from telecommunications operators	60,374	55,139
- advances received from the sale of telecommunications services card payment vehicles	6,045	6,371

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Settlements on advances received on non-core operations and unsold assets:	2,190	39,851
Total	425,147	538,252

Settlements with the Budget on Taxes and Duties (item 625 of the Balance Sheet)

Indicator	As of January 1, 2007	As of December 31, 2007
Settlements on property tax	160,293	168,485
Settlements on value added tax	22,353	34,394
Settlements on other taxes	11,825	11,671
Settlements on profit tax	14,026	463
Total	208,497	215,013

Other Accounts Payable (item 626 of the Balance Sheet)

Indicator	As of January 1, 2007	As of December 31, 2007
Settlements on the agency agreement with Rostelecom OJSC	401,388	545,628
Settlements with Not-for-Profit Partnership	-	305,443
Settlements on provision for universal telecommunications service	139,651	83,330
Settlements on deferred value added tax	119,081	42,267
Other settlements	41,778	71,732
Total	701,898	1,048,400

Other accounts payable increased by 346,502 against the previous year, which is mainly due to debt to the Research Center for Telecommunications Development Problems Not-for-Profit Partnership in the amount of 305,443. This debt was classified as accounts payable and was paid in January 2008.

5.20. Deferred Income (item 640 of the Balance Sheet)

Indicator	As of January 1, 2007	As of December 31, 2007
Deferred income, total	462,402	432,762
including		
- gratuitous proceeds	302,730	287,442
- other deferred income	159,672	145,320
Purpose finance funds (other than budgetary funds)	3,180	-
Purpose finance budgetary funds, total	1,069	294
Total	466,651	433,056

5.21. Provisions for Future Expenses (item 650 of the Balance Sheet)

Indicator	As of January 1, 2007	Charged	Used/ recovered	As of December 31, 2007
Provision for unused vacations	337,774	832,646	(859,553)	310,867
Provision for annual bonus payments	180,889	57,256	(180,889)	57,256
Other provisions, total	162,267	248,297	(168,068)	242,496

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Including provisions for monthly and quarterly bonus payments	155,328	212,944	(134,258)	234,014
Total	680,930	1,138,199	(1,208,510)	610,619

The Company's expenses with respect to provisions for future expenses are charged to:

Indicator	2007	2006
- expenses for core operations	1,137,638	724,891
- other expenses	561	-
Total:	1,138,199	724,891

5.22. Other Short-Term Liabilities (item 660 of the Balance Sheet)

Indicator	As of January 1, 2007	Charged	Used	Charged to other expenses	As of December 31, 2007
Provision for contingent liabilities related to headcount optimization	39,993	418,165	(31,264)	(8,729)	418,165
Other provisions	86,577	129,600	(86,577)	-	129,600
Total	126,570	547,765	(117,841)	(8,729)	547,765

The Company's expenses with respect to provisions for contingent liabilities are charged to:

Indicator	2007	2006
- expenses for core operations	418,130	37,791
- other expenses	129,635	86,577
Total:	547,765	124,368

Provision for Contingent Liabilities for Headcount Optimization Program

Within the framework of the Company's efficiency policy CenterTelecom OJSC accepted a Program for Optimization of the Personnel Number approved by the Company's Board of Directors (Minutes No.21 of March 31, 2006). The program provides for a gradual reduction of the personnel number in 2006-2008.

Within 2008 the Company plans to reduce its headcount by 14,776 employees. Of these 4,141 employees were notified of the forthcoming reductions as of December 31, 2007.

In December 2007 the Company created a provision for severance pay to the employees who have been notified of the forthcoming staff reduction. Expenses associated with the provision were 418,165.

Other Provisions

In December 2007 the Company formed a contingent liabilities provision in the amount of 129.600 (86,577 in 2006) for representation of the Company's interests in the course of judicial proceedings.

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5.23. Leased Fixed Assets (item 901 of the Balance Sheet)

The increase in the value of fixed assets leased in the amount of 3,131,297 is related to the entering into agreements for financial lease contracts.

On May 7, 2007 the Company concluded a contract with RTK-Leasing OJSC for the financial lease of a property complex for the purpose of telecommunications services provision. The amount of the gross lease rate excluding insurance cost and property tax is 8.59% per annum.

On November 30, 2007 the Company concluded a contract with RTK-Leasing OJSC for the financial lease of a property complex for the purpose of universal services provision. The amount of gross lease rate excluding insurance cost and property tax is 11.48% per annum.

The total amount of payments under the agreements made will be 2,917,272 within their terms (36 months, 60 months).

5.24. Assets Pledged as Collateral for Liabilities and Payments (item 906 of the Balance Sheet)

Indicator	As of January 1, 2007	As of December 31, 2007
Promissory notes	8,721,351	5,317,794
Third party guarantees	1,869,773	1,003,803
Property pledged	143,866	690,347
Other	27,910	-
Total	10,762,900	7,011,944

A 3,750,956 reduction in the value of assets pledged as collateral for liabilities and payments was mainly due to repayment of paper credits in the amount of 3,403,557, a change in debts on the loans secured by the Company's property by 865,970 and a payment under a letter of credit in the amount of 27,910.

An increase in pledged property value by 546,481 is connected with payments against liabilities on loans secured by the Company's property in the amount of 143,866 and with the conclusion of property pledge agreement No. 7651/07-DO, dated March 09, 2007, with the Ministry of Finance of the Russian Federation for the total pledge value of 690,347 (see clause 5.16 hereof).

6. Notes to Significant Profit and Loss Items

6.1. Revenue

Revenues from sales of products, goods, services provision and works performance (net of VAT, excise taxes and similar statutory payments):

Indicator	2007	2006
City and rural telephone communications	15,874,031	14,443,941
Inter-zone telephone communications	5,912,129	3,885,162
Connection and traffic transfer services	4,685,055	5,037,231
Telegraph communications, data transmission and telematic services	3,265,987	2,137,593
including Internet access related services	3,081,928	1,929,080

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Explanatory Notes to Financial Statements for 2007

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Cooperation and agency services	1,147,666	1,397,712
Mobile radiotelephony, wire broadcasting, radio broadcasting, TV	708,380	742,465
Mobile radiotelephony (cellular communications)	278,036	245,865
Other communications services (core activities)	97,812	144,398
Income from other sales (non-core activities)	440,031	360,890
including income from the lease of assets	304,190	165,543
Total	32,409,127	28,395,257

Income rose by 4,013,870 against 2006, mainly on the types of services listed below:

Local Telephone Communications

In 2007 income from local telephone communications and the provision of telephone lines to individual subscribers amounted to 11,350,413 (10,010,881 in 2006), including:

1. Income from local telephone connections based on:

- tariff plan with subscriber based flat fee – 4,324,088;
- tariff plan with time based billing – 540,239;
- tariff plan with combined payment system – 129,857.

2. Income from the provision of a local telephone line to a subscriber regardless of type – 6,356,229.

Income from local telephone communications and provision of a local telephone line to corporate clients amounted to 2,481,170 (2,282,860 in 2006), including:

1. Income from local telephone connections based on:

- tariff plan with subscriber based flat fee – 637,103;
- tariff plan with time based billing – 522,077.

2. Income from the provision of a telephone line to a subscriber regardless of type – 1,321,990.

Connection and Traffic Transfer Services

The Company's income from connection services was 289,451 in 2007 (268,481 in 2006), including:

- payment for POI organization – 16,762 (26,783 in 2006);
- payment for POI maintenance – 272,689 (241,698 in 2006).

The Company's income from traffic transfer services was 4,395,604 in 2007, of which 905,313 represented compensation adjustment (4,722,411 and 1,232,287 respectively).

Services in Support of Long-Distance Domestic and International Communications Services Provided by Domestic and International Long-Distance Communications Operators (Cooperation and Agency Services)

The Company's income from cooperation and agency services rendered in accordance with an agreement concluded with Rostelecom amounted to 1,139,826 (1,397,336 in 2006), and 7,356 from services in accordance with an agreement concluded with MTT OJSC (40 in 2006).

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Telegraph Communications, Data Transmission and Telematic Services

The Company's income from telegraph communications, data transmission and telematic services in 2007 amounted to 3,265,987 (2,137,593 in 2006), including:

- Data transmission services and Internet access provision – 3,081,928 (1,929,080 in 2006);
- Telegraph communications services – 184,059 (208,513 in 2006).

Comparative Data on Income for 2006

In 2007 the Company changed the format for presenting information on its revenue:

Data for 2006 before correction		Data for 2006 after correction	
Indicator	Amount	Amount	Indicator
Inter-zone telephone communications	3,867,162	3,885,162	Inter-zone telephone communications services
City and rural telephone communications	14,413,488	14,443,941	Local telephone communications including universal telecommunications services
Universal telecommunications services	-		
Mobile radiotelephony, radio broadcasting, TV	670,235	742,465	Services of mobile radiotelephony, wire broadcasting, radio broadcasting, TV
Wire broadcasting	72,230		
Mobile radiotelephony (cellular communications)	245,865	245,865	Mobile radiotelephony (cellular communications) services
Documentary communications	2,201,931	2,137,593	Telegraph communications, data transmission and telematic services
Connection and traffic transfer services	4,990,893	5,037,231	Connection and traffic transfer services
Services in support of long-distance domestic and international communications services provided by long-distance domestic and international communications operators	1,397,712	1,397,712	Cooperation and agency services
Other communications services (core activities)	144,398	144,398	Other communications services on core activities
Income from other sales (non-core activities)	391,343	165,543	including income from lease of assets
		195,347	Income from other sales (non-core activities)

The Company disclosed income from universal telecommunications services separately from income from local telecommunications services in its financial statements for 2006. In 2007 income from universal telecommunications services is included in income from local telecommunications services because universal telecommunications services in fact are local telecommunications services for which special terms are provided by concluded contracts for universal telecommunications services' provision.

Income from fixed line communications is included in income from mobile radiotelephony, wire broadcasting, radio broadcasting, TV.

Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2007

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Income from telegraph communications, data transmission, telematic services, Internet access provision and IP-telephony in 2007 included income from fixed line telecommunications services.

The clause “Documentary communications” in the Company’s financial statements for 2006 included income from telegraph communications, data transmission, telematic services, Internet access provision and IP-telephony. In 2007 the Company replaced the name of this clause with “Telegraph communications, data transmission and telematic services.”

In 2007 the Company’s financial statements included a separate item related to income from lease of assets. In 2006 this income was reflected as a part of income from other sales.

6.2. Costs

Expenses on the sale of products, goods, provision of services, performance of works:

Indicator	2007	2006
Salary expenses	8,352,172	7,823,744
Social insurance charges	1,894,952	1,828,942
Fixed assets depreciation	3,834,173	3,767,380
Expenses on telecoms operators’ services (excluding Rostelecom OJSC)	2,383,241	1,258,732
Material costs including electric power	1,920,972	1,989,531
Third party expenses	1,779,994	1,658,515
Expenses on operating rent payments	1,325,916	1,209,632
Agency services	395,171	262,116
Charges to provision for universal service	313,636	258,640
Expenses on Rostelecom OJSC services	549,631	165,032
Expenses on property insurance	78,666	196,749
Taxes and duties included in operating expenses	57,665	56,428
Charges to non-governmental pension fund	251,263	20,000
Other expenses	831,504	713,428
Total	23,968,956	21,208,869

The increase in costs on core activities in 2007 amounted to 2,760,087 against 2006.

The reduction in material costs is caused by the Company’s activities connected with the optimization of costs.

Increased expenses on operating rent payments is caused by the conclusion of lease contracts for the supply of telecommunications equipment for the further development of broadband Internet access services based on ADSL technology and sold under the DOMOLINK brand, and also for the provision of universal telecommunications services.

Expenses Related to the Provision for Contingent Liabilities Related to the Headcount Optimization Program

The item “Salary expenses” includes expenses for formation of a provision for the headcount optimization program in the amount of 418,165 (see clause 5.22 hereof).

Expenses on Services of Telecommunications Operators

Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2007

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Starting January 1, 2006, the Company has borne expenses on connection and traffic transfer services provided by telecoms operators, networks of which are connected to the Company's network. The procedure for interaction and settlements between the Company and connected operators is specified by the Federal Law "On Telecommunications", as well as by the Decrees of the Government of the Russian Federation dated March 28, 2005, No. 161 and October 19, 2005, No.627.

The Company's expenses for traffic transfer services in 2007 amounted 1,846,456 (722,121 in 2006).

Expenses on Services of Rostelecom OJSC

The Company's expenses relating to payment for the services of Rostelecom OJSC on transfer of long-distance domestic and international traffic through the network of Rostelecom OJSC to other regions of Russia or other countries amounted to 93,867 in 2007 (99,848 in 2006), and for Rostelecom OJSC's termination services on outgoing traffic initiated from the Company's network to other operators' networks expenses amounted to 403,641.

Expenses on Universal Telecommunications Services

The Company's expenses on universal telecommunications services were 63,992 (172 in 2006).

Of this amount labor expenses were 17,213 (63 in 2006), expenses for fixed assets depreciation were 20,840 (36 in 2006).

Losses from universal telecommunications services rendered through public pay telephones were 36,701 in 2007 (172 in 2006). Of this amount 14,950 were represented by losses for 1H 2007, and 21,751 were represented by losses for the 3rd quarter 2007.

Expenses on Charges to Non-Governmental Pension Fund

The rise in expenses for charges to the non-governmental pension fund is caused by a lack of charges in 2006 which became possible because of a surplus as of December 31, 2005.

6.3. Other Income and Expenses

Other income

Indicator	2007	2006
Income from recovery of provision for doubtful debts	324,854	956,565
Exchange differences on assets and liabilities payable in foreign currencies	208,656	83,408
Profit of past years discovered during the reporting year	108,199	37,397
Income from the sale and other disposal of fixed assets	80,085	21,941
Income from the sale and other disposal of other assets	61,511	43,724
Income from write-off of accounts payable	46,493	181,547
Write-off of deferred income	42,341	37,607
Reimbursements of losses from universal telecommunications services	36,873	-
Exchange differences on assets and liabilities payable in	29,429	21,374

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rubles		
Fines, penalties and forfeits for breach of agreements; proceeds from loss recovery	22,226	20,934
Income from recovery of provisions for decreases in inventory cost	-	570
Other income	98,394	57,076
including:		
recovery of provisions for future expenses formed in 2006	75,693	-
reimbursement of expenses within then framework of ADR program	5,406	-
income as a consequence of force majeure circumstances	730	171
value of property identified in the course of inventory count	467	2,121
income from the write-off of penalties and fines on taxes restructuring	388	29,087
other	15,710	25,697
Total	1,059,061	1,462,143

Other income for 2007 decreased 403,082 compared with 2006.

The decrease in income from the recovery of provision for doubtful debts by 631,711 was mainly caused by a decrease in the inflow of money from the federal budget as reimbursement of expenses related to the granting of privileges to certain categories of subscribers for 2007. The amount of the reimbursement was 396,590 for 2007 (1,022,318 in 2006).

The decrease in income from the write-off of accounts payable with expired limitation period in the amount of 135,054 is mainly caused by the write-off of late payment interest under the amicable agreement with the Ministry of Finance of the Russian Federation (Vnesheconombank) in the amount of 175,386 in 2006.

Reimbursement of Losses from the Provision of Universal Telecommunications Services

In 2007 in accordance with the terms of contracts for the provision of universal telecommunications services, the Company received from provision of universal telecommunications services reimbursement of losses related to universal services in the following amounts:

- 172 for the services rendered in 2006
- 14,950 for the services rendered in 1H 2007
- 21,751 for the services rendered in the third quarter of 2007.

Reimbursement for 2006 for 100% of losses incurred was received in accordance with decision No.AB-P33-6428 issued by the Federal Agency for Telecommunications on June 20, 2007.

Reimbursement of losses for 1H 2007 in the amount of 100% of losses incurred was received in accordance with decision No.SM-P33-10102 issued by the Federal Agency for Telecommunications on September 12, 2007.

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Reimbursement of losses for 3Q 2007 was received in accordance with decision No.SM-P33-14390 issued by the Federal Agency for Telecommunications on December 10, 2007.

The Company expects to receive a reimbursement of the losses for 4Q 2007 in the amount of 36,189 after the making of the appropriate decision by Federal Agency for Telecommunications (see clause 2 hereof).

Other expenses:

Indicator	2007	2006
Expenses on taxes and duties	734,333	723,650
Losses of past years discovered during the reporting year	333,353	1,136,965
Membership dues to associations, not-for-profit partnerships	309,343	186,832
Expenses related to sale and other disposal of fixed assets	289,670	47,500
Payments to personnel not included in operating expenses	141,642	126,568
Provision for contingent liabilities on services	129,600	73,370
Expenses on fees for credit organizations' services	99,048	148,203
Expenses related to charitable activities, cultural events and other similar events	72,164	47,789
Expenses related to sale and other disposal of assets	61,077	115,477
Charges for social needs and for trade union organizations	51,094	54,548
Expenses on mobilization training and civil defense	48,050	49,892
Exchange differences on assets and liabilities payable in rubles	33,774	19,504
Expenses for provision for impairment of financial investments	27,098	2,137
Non-operating expenses	21,821	23,854
Fines, penalties and forfeits for breach of agreements, damage recovery	3,738	32,883
Write-off of accounts receivable	3,681	16,501
Exchange differences on assets and liabilities payable in foreign currencies	1,940	59,235
Other	51,563	290,635
Total	2,412,989	3,155,543

The decrease in other expenses in 2007 by 742,554 against 2006 was mainly caused by a decrease in losses of past years discovered over the reporting year which included provision for impairment of financial investments in RTS OJSC's authorized capital.

6.4. Expenses on Profit Tax

The Company defined the following components of profit tax in 2007:

Indicator	Amount	Tax rate	Amount	Components of profit tax
Book profit	5,345,825	24%	(1,282,998)	Conditional expense on profit tax
Taxable temporary differences	(957,787)	24%	229,869	Deferred tax liabilities
including:				including:
- differences arising	(632,286)	24%	151,749	deferred tax liabilities created
- under the adjusted return for the previous	(341,561)	24%	81,975	- deferred tax liabilities created

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period (see clause 5.17)				
- differences repaid	16,060	24%	(3,855)	- deferred tax liabilities repaid
Deductible temporary differences:	(164,806)	24%	39,554	Deferred tax assets
including:				including:
- differences arisen	1,548,599	24%	(371,664)	- deferred tax liabilities created
- under the adjusted return for the previous period (see clause 5.5)	(156,791)	24%	37,630	
- differences repaid	(1,556,614)	24%	373,588	- deferred tax liabilities repaid
Continuing taxable differences	1,783,975	24%	(428,154)	Continuing tax asset Continuing tax liability
Tax base under the tax return	6,531,593	24%	(1,567,582)	Current tax
Amount of tax for previous periods			(326)	Current tax (Continuing tax liability)
Amount of tax for previous periods, including			126,179	
- according to adjusted continuing difference of the previous period			6,574	Profit tax under adjusted returns for past periods Continuing tax liability
- according to an adjusted deferred tax asset			37,630	Profit tax under adjusted returns for past periods Deferred tax asset
- according to adjusted taxable difference of the previous period			81,975	Profit tax under adjusted returns for past periods Deferred tax liability

The Company's expenses on profit tax for 2007 amounted to:

Total	(1,711,152)
including	
- theoretical expense on profit tax	(1,282,998)
- permanent tax liabilities	(428,154)

The Company's expenses on profit tax for 2007 are shown in the Profit and Loss Statement as an aggregate amount of:

Total	(1,711,152)
including	
- current tax	(1,567,582)
- deferred tax liabilities	(229,869)
- deferred tax assets	(39,554)
- profit tax under adjusted returns for previous periods	126,179
- profit tax under adjustment in accordance with result of field tax audit in 2002-2003	(326)

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Continuing taxable differences that resulted in adjustment of conditional profit tax, total	1,992,660
including:	
Provisions for doubtful debts	457,490
Expenses generating cost, but not accounted for the purpose of profit taxation, mainly payments to personnel in accordance with collective contract	351,183
Expenses on not-for-profit partnership	309,343
Payments to personnel not included in operating expenses	141,642
Losses of past years discovered during the reporting period	95,858
Book value of written off assets (excluding fixed assets)	221,620
Expenses generating cost, but not accounted for, for the purpose of profit taxation	61,485
Charitable activities, not-for-profit organizations' membership fees	49,144
Non-deductible VAT	45,788
Other expenses	41,240
Expenses for provision for impairment of financial investments	31,152
Expenses on social needs not referred to in payments to personnel	28,508
Differences between residual value of fixed assets in accounting and tax accounting by write-off	26,860
Expenses on cultural events	23,020
Charges to trade union committee	22,552
Book depreciation of fixed assets that are non-depreciable property in accordance with the Tax Code of the Russian Federation	20,340
Loss during the reporting period on activities related to the use of auxiliary production and facilities (in accordance with Article 275.1 of the Tax Code of the Russian Federation)	13,996
Other taxable continuing differences	51,439
Continuing deductible differences that resulted in adjustment of conditional profit tax, total	208,685
including:	
Profit of past years discovered over the reporting year	88,916
Income as reimbursement of losses connected with the provision of universal telecommunications services	36,873
Income in the form of dividends received	29,521
Income equal to amount of depreciation charged on proceeds that were not levied with profit tax as of the moment of receipt	17,105
Other deductible differences	36,270
Temporary taxable differences that resulted in adjustment of conditional profit tax, total	(957,787)
including:	
Difference in depreciation methods and generation of historical cost of fixed assets in accounting and tax accounting	(604,026)
According to adjusted returns for previous periods	(341,561)
Difference in methods of deferred expenses reflection in financial accounting and tax accounting	(12,200)
Temporary taxable differences that resulted in adjustment of conditional profit tax, total	(164,806)
including:	
Charges to the provision for bonuses and rewards	(105,436)
Provision for doubtful debts	(414,481)
Expenses on the creation of provision for contingent liabilities related to headcount optimization	376,417
According to adjusted returns for previous periods	(156,791)
Amount of discount on promissory notes	139,849

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Provision for liabilities and charges on services rendered	63,117
Provision for contingent liabilities connected to law suits	56,230
Exchange differences	(86,900)
Charges to the provision for leave payments	(26,945)
Gratuitous proceeds that are subject to taxation at the moment of receipt, but accounted for in deferred income according to the accounting regulations	(12,124)
Losses from the sale of fixed assets items	2,258

6.5. Net Profit of the Reporting Period

“Net profit (loss) of the reporting period” is defined according to the accounting data based on the fact that expense on profit tax deductible from the amount of profit before taxes is generated as the aggregate of amounts reflected on “Deferred tax assets”, “Deferred tax liabilities”, and “Current profit tax” items.

6.6. Earnings per Share

Basic earnings per share reflect the share of profit for the reporting year due to shareholders holding common shares. It is calculated as a ratio of basic profit for the reporting year to the average weighted number of outstanding common shares over the reporting year.

Basic profit for the reporting year equals net profit (item 190 of the Profit and Loss Statement) less dividends on preferred shares for 2007 in the amount recommended by the Company’s management to the Board of Direction, however not approved as of the date of the financial statements for 2007.

Indicator	2007	2006
Basic profit for the reporting year, RUR thousand	3,271,206	1,843,064
Average weighted number of outstanding common shares over the reporting year, thousand shares	1,578,007	1,578,007
Basic profit per share, RUR	2.07300	1.16797

The Company did not additionally issue any common shares in 2007. The Company did not hold any securities, or issue conditions which would provide for conversion into additional common shares. There were no events related to an increase in the number of common shares. Therefore, the Company makes no calculations of diluted earnings per share.

7. Affiliates

The Company discloses the most essential information about affiliates in the explanatory notes. The list of affiliates is presented in Addendum #1 to the present Explanatory Note.

Parent Organization

The Company is controlled by Svyazinvest OJSC, which owns 50.69% of ordinary shares which account for 38.02 % of the Company’s authorized capital. Svyazinvest OJSC is the parent organization of a Group of related entities, of which the Company is a member.

Interactions with Affiliates for the Reporting Period

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Name of affiliate	Svyazinvest OJSC	Svyazinvest OJSC's subsidiaries	The Company's subsidiaries	The Company's affiliates	Other
2006					
Sale of telecommunications services, interconnection and traffic transfer services	-	4,158,993	71,006	5,776	48,757
Sale of services in support of long-distance domestic and international communications services provided by long-distance domestic and international communications operators (cooperation and agency services)	-	1,395,127	-	-	-
Sale of other services and products	-	5,599	11,706	425	6,051
Purchase of telecommunications services, interconnection and traffic transfer services	-	166,332	186,656	-	62,474
Purchase of other services	-	42,231	93,517	-	404,457
Purchase of products and other assets	-	14	36,564	-	1,099
Dividends receivable	-	-	13,236	22	2,013
Dividends payable	49,369	-	15	1	1
2007					
Sale of telecommunications services, interconnection and traffic transfer services	-	3,457,794	78,193	7,442	52,911
Sale of services in support of long-distance domestic and international communications services provided by domestic and international long-distance communications operators (cooperation and agency services)	-	1,137,997	-	-	-
Sale of other services and products	-	7,892	8,752	1,035	2,582
Sale of fixed assets and other assets	-	-	34	-	-
Purchase of telecommunications services, interconnection and traffic transfer services	-	825,349	138,816	-	70,145
Purchase of other services	-	27,048	104,474	-	1,033,868
Purchase of products and other assets	-	46	29,661	1	5,296
Interests on loans receivable	-	-	6,117	-	-
Dividends receivable	-	-	26,736	35	2,443

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Dividends payable	146,380	-	44	-	2
Contributions to authorized capital	-	-	28,900	-	-
Loans given	-	-	132,541	-	-

In 2007 prices for settlements on operations with affiliates were set up on the basis of standard commercial terms.

Within 2007 the Company granted loans to Russian Telecommunications Network OJSC in the amount of 116,541 and to Operatorsky Tsentr CJSC in the amount of 16,000 on the basis of commercial terms. These amounts are reflected in other short term financial investments (see clause 5.4 hereof).

The amount of expenses on the purchase of other services from other affiliates reflects settlements on contracts concluded with Svyazintek OJSC, Telecom-Soyuz NPF, and Research Center for Telecommunications Development Problems Not-for-Profit Partnership.

Expenses on the Research Center for Telecommunications Development Problems Not-for-Profit Partnership amounted to 397,196 for 2007 (211,474 for 2006).

Status of Settlements with Affiliates as of Reporting Date

Name of affiliate	Svyazinvest OJSC	Svyazinvest OJSC's subsidiaries	The Company's subsidiaries	The Company's affiliates	Other
As of January 1, 2007					
Accounts receivable	-	757,085	84,612	891	158,007
Accounts payable	-	437,891	34,590		6,654
Collateral received	-	-	5,907,436	-	-
As of December 31, 2007					
Accounts receivable	-	873,468	66,276	638	104,229
Loans given (including interest)	-	-	100,397	-	-
Accounts payable	-	673,889	12,422	-	385,501
Collateral received	-	-	5,905,355	-	-

Revenue Intensive Transactions with Affiliates

Rostelecom OJSC

Rostelecom OJSC, the control stake in which is owned by Svyazinvest OJSC, is the major domestic and international long distance telecommunications operator in the Russian Federation.

Indicator	2007	2006
Income from Rostelecom OJSC	4,562,968	5,534,878
Expenses on Rostelecom OJSC	796,796	166,050
	As of January 1, 2007	As of December 31, 2007
Accounts receivable on services rendered by Rostelecom OJSC	743,577	843,238

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Accounts payable on services rendered by Rostelecom OJSC	415,597	634,347
Including accounts payable on support agreement	401,388	545,628

Income from Rostelecom OJSC includes income from zone call initiation, call termination from and to the Company's networks and from and to interconnected operators' networks as well as income on support agreement which are reflected in items "Sale of telecommunications services, interconnection and traffic transfer services" and "Sale of services in support of long-distance domestic and international communications services provided by long-distance domestic and international communications operators (cooperation and agency services)".

Expenses for Rostelecom OJSC include payments for the termination of calls to other telecoms operators' networks, if the calls are initiated from mobile radiotelephony network, payments for interconnection services and for domestic and international long distance telecommunications services rendered to the Company (these expenses are reflected in the item "Purchase of telecommunications services, interconnection and traffic transfer services").

Moreover Rostelecom OJSC expenses include expenses on the lease of premises, compensation for expenses for electric energy, purchase of microcircuit chips, services for coordination and approval of projects for optic fiber transmission lines' construction etc (these expenses are reflected in items "Purchase of other services" and "Purchase of products and other assets").

Clause 6.2 of the present Explanatory Note includes expenses reflected as follows: lease payments, third party services, and other expenses on core activities. Expenses payable to Rostelecom OJSC in the amount of 219,472 are included in other expenses in the item "Losses of past years discovered during the reporting year."

Accounts payable to Rostelecom OJSC include payables for services rendered to the Company and payables on support contract in the amount of subscribers' payments to the Company for long-distance domestic and international communications services rendered by Rostelecom OJSC.

Svyazintek OJSC

Svyazintek OJSC was formed by Svyazinvest OJSC's subsidiaries which own 100% in Svyazintek OJSC with the purpose of implementation and support of information systems, and also for coordination, management and implementation of the centralized industry's IT programs in Svyazinvest Group's companies.

In 2007 Svyazintek OJSC provided services related to the implementation and further maintenance of information systems to the Company, in particular, Oracle E-Business Suite and Amdocs Billing Suite.

The Company's expenses on Svyazintek OJSC's services for 2007 amounted to 369,701 (168,080 for 2006). The expenses are included in deferred expenses for purchase of software (expenses are reflected in the item "Purchase of other services" of the table "Interactions with affiliates for reporting period").

Prepaid expenses to Svyazintek OJSC as of December 31, 2007 reached 97,782 (71,763 as of December 31, 2006), the Company's accounts payable to Svyazintek OJSC was 67,895 (0 as of December 31, 2006).

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Telecom-Soyuz Non-Governmental Pension Fund (Telecom-Soyuz NPF)

The company concluded an agreement with Telecom-Soyuz NPF one of founders of which is Svyazinvest OJSC. The total amount of contributions to the fund paid by the Company in 2007 was 259,708 (20,000 for 2006) (see clause 8 hereof). The amount of contributions is reflected in the item "Purchase of other services" of the table "Interactions with affiliates for reporting period". The Company's accounts payable to Telecom-Soyuz NPF as of December 31, 2007 was 4,770 (0 as of December 31, 2006).

Telecom-Terminal LLC

In 2004 Telecom-Terminal LLC issued a guarantee for the fulfillment of the Company's liabilities on payment of the par value and total coupon income on series 04 bonds to the bond holders.

The amount of the guarantee as of December 31, 2007 was 5,905,355 (5,907,436 as of December 31, 2006).

Research Center for Telecommunications Development Problems NP

Research Center for Telecommunications Development Problems Not-for-Profit Partnership (NP) OJSC was formed by Svyazinvest OJSC's subsidiaries which own 100% in the Partnership with the purpose of implementation of mutually profitable programs. The total amount of contributions to the Partnership paid by the Company in 2007 was 306,443 (184,624 for 2006).

Research Center for Telecommunications Development Problems NP also rendered agency services on the development and implementation of an ERP system based on Oracle EBusiness Suite. The Company's expenses for payment for agency services rendered by Research Center for Telecommunications Development Problems NP in 2007 reached 90,753 (26,850 in 2006).

The Company's accounts payable to Research Center for Telecommunications Development Problems NP as of December 31, 2008 amounted to 305,443 (0 as of December 31, 2006). The debt was repaid in January 2008.

Remuneration of Directors

In 2007 the Company paid to members of the Board of Directors, members of the Company's Management Board and members of the Company's Audit Committee remuneration including wages, bonuses and fees for participation in the Company's management bodies' work in the total amount of 108,451 (64,859 in 2006).

The list of members of the Company's Board of Directors, Management Board and Audit Committee is represented in section 2 of the present Explanatory Note.

Expenses for remuneration of the Company's employees taking part in the work of the Company's Board of Directors, Management Board and Audit Committee are reflected in operating expenses as expenses for salaries.

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Fees in the amount of 52,552 paid to persons taking part in the work of the Company's Board of Directors, Management Board and Audit Committee who are not the Company's employees are reflected in operating expenses as other expenses.

In 2007 the Company paid contributions in the amount of 4,068 to Telecom-Soyuz NPF for the Company's employees taking part in the work of the Company's Board of Directors, Management Board and Audit Committee (372 in 2006). This amount includes the employees' personal contributions and the Company's joint contributions.

The Company's employees have the right to receive pensions in accordance with the retirement rules taking into consideration the fulfillment of the terms of the Company's Non-Governmental Pension Plan. Expenses in the amount of contributions to the non-governmental pension fund are reflected in operating expenses as other expenses.

8. Non-state Pension Insurance

The Company participates in the pension plan within the framework of the governmental and non-governmental pension scheme using retirement plans with established amounts of pension contributions and pension payments.

The non-governmental pension program is implemented by Telecom-Soyuz NPF which is the Company's affiliate (see clause 7 hereof).

The Company's Pension Plan with established pension contributions provides that pension contributions are to be paid both by the Company and by the employee during the employment term. The Company's and the employees' contributions are transferred to the personal pension accounts of the employees opened in Telecom-Soyuz NPF. The amount of the pension according to the plan depends on the sum accumulated in the employee's account as of the employee's retirement date.

The pension plan with established payments provides for a retirement pension and a disability pension. A retirement pension is paid to an employee reaching the employment age limit (55 years for women and 60 years for men). According to the Company's Pension Plan the amount of pension depends on an employee's job position in the Company. A time record giving the right for a non-governmental pension paid by the Company shall be not less than 15 years for an employee and not less than 4 years for a top manager.

The total amount of contributions to the non-governmental pension plan paid by the Company in 2007 was 259,708 (20,000 in 2006) and was mainly included into operating expenses as other expenses. Contributions for employees involved in non-productive operations were included into other expenses. The fund retains 3% of each contribution to provide for its own operations and for the coverage of its administrative expenses.

9. Contingencies

Business Environment

Along with the improvement in the economic situation, in particular, the rise in gross domestic product and decrease in the inflation rate, economic reforms and the development of legal, tax and administrative systems meeting the requirements of a market economy, continue in Russia.

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Stability within the Russian economy will depend considerably on the progress of reforms in these areas, as well as on the effectiveness of measures taken by the government in the areas of economy, financial, and monetary and credit policy.

Taxation

Russian tax, currency and customs laws allow various interpretations and are subject to frequent changes. Recent developments in the Russian Federation indicate that tax authorities may take tougher positions in their interpretation of tax laws and tax assessments. Interpretation of such laws by the Company's management as applied to the Company's operations and activities may be challenged by the relevant federal authorities. Consequently, tax authorities may raise claims as to such transactions and accounting methods that have been accepted without any claims in the past. As a result, substantial additional taxes, penalties and fines may be charged. Tax audits may cover three calendar years immediately prior to the year of audit. Under certain circumstances, even earlier periods may be subject to audit.

The management believes that in general it has interpreted the relevant provisions of laws correctly as of December 31, 2007, and the probability of keeping the Company's status in terms of compliance with the requirements of the tax, currency and customs laws is high. At the same time, based on the results of recent tax audits of other companies within Svyazinvest OJSC Group, the Company's management foresees a certain risk that tax authorities may raise substantial tax claims against the Company in relation to issues which allow ambiguous interpretation of tax laws, particularly on measuring revenues under agreements on interaction between networks. Neither calculating amounts of claims on actions which are possible but not brought, nor assessment of probability of unfavorable outcomes is possible.

The financial statements as of December 31, 2007 do not include any adjustments that may be needed due to such uncertainties and positions accepted by the Company.

Guarantees Issued

The Company acted as a guarantor for third parties in the total amount of 1,003,803 (1,869,773 in 2006). The Company does not expect any material liabilities in relation to such guarantees.

Litigation

In 2007 the Company was a party to a number of legal actions related to current issues arising from its operations.

Moreover a decision of a court was made in favor of the Company and came into effect. The decision was later appealed by the tax authority. An appeals petition will be considered by a court of cassation on 17 April, 2008.

On April 24, 2006 an Interregional Office No.7 of the Russian Federation Tax Administration made decision No.4 which declared the Company accountable for a tax offence.

On April 27, 2006 claim No. 81 for the free-will payment of tax and tax penalties in the amount of 2,355,359 by the Company was sent to the Company.

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On May 3, 2006 the Company filed a petition for recognition of decision No.4 made by the Interregional Office No.7 of the Russian Federation Tax Administration as illegal.

On February 27, 2007 the Company's claim was sustained for the most part. The Company's claim in the amount of 12,436 of additionally charged tax was rejected.

On August 28, 2007 an appeals petition by the tax administration was considered. The decision of the court of primary jurisdiction was affirmed, and the appeal petition was dismissed.

The Interregional Office No.7 of the Russian Federation Tax Administration filed a cassation appeal whose consideration has been postponed to April 17, 2008.

On May 5, 2006 the Company filed a petition to the Moscow Arbitration Court for recognition of the decision No.81 made by the tax administration as illegal. In accordance with the decision by the Moscow Arbitration Court of June 6, 2006 judicial proceedings on this case are stopped until the court decision on recognition of the decision No.4 made by the Interregional Office No.7 of the Russian Federation Tax Administration illegal comes into effect. To date the judicial proceedings are still halted until the cassation court considers the case related to recognition of the decision No.4 issued by the tax administration on April 24, 2006.

In October 2007, the Interregional Office No.7 of the Russian Federation Tax Administration issued a decision declaring the Company accountable for a tax offence on the basis of the results of a tax audit of the Company's operations for the years 2004-2006. The tax claim against the company totalled RUR440 million, including RUR343 million in taxes and RUR97 million in penalties.

Within 2007:

- legal bodies brought 141 actions against the Company for the total amount of 73,378
- individuals brought 167 actions against the Company for the total amount of 13,493.
- the Company brought 1,914 actions against legal bodies in the total amount of 103,381
- the Company brought 24,846 actions against individuals in the total amount of 37,450
- the Company brought 43 actions against the Russian Federation in connection with losses incurred by the Company because of granting privileges to certain categories of subscribers in the total amount of 75,584.

The Company assumes that the likelihood of unsuccessful outcomes on the actions mentioned above is low, and there is no need to form a provision for contingencies.

10. Events after the Balance Sheet Date

10.1. Dividends

The amount of annual dividend per share will be approved by the Company's General Shareholder Meeting in June 2008. The Company's management plans to recommend that the Board of Directors approve the level of dividends for 2007 for further approval by the General Shareholder Meeting in the amount of RUR0.3338585 per common share and RUR 0.6910119 per preferred share (RUR 0.1999621 and RUR0. 38933 respectively in 2006). The total amount of dividends for 2007 will reach 526,831 per common share and 363,467 per preferred share (315,541 and 204,785 for 2006 respectively).

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Upon approval by the General Shareholders Meeting, the annual dividends payable will be reflected in the financial statements for 2008.

10.2. The Company's Participation in Sistemy Gibridnoy Pechati CJSC

On March 27, 2008, the Board of Directors of the Company made the decision on participation in the authorized capital of Sistemy Gibridnoy Pechati CJSC by means of acquisition of 6,097,000 common non-documentary inscribed shares (9.38% of all shares) for the sum of 609,700.

10.3. Personnel Dismissal

Within the framework of the Program for Headcount Optimization approved by the Company's Board of Directors (Minutes of Meeting dated March 31, 2006, No. 21), the Company paid severance pay in the amount of 36,303 including: 8,860 to employees who were dismissed up to January 1, 2008, and 27,443 to employees who were dismissed during the period from January 1, 2008 until March 15, 2008.

10.4. Tariff Regulation

Order No. 356-s/1 of the Federal Tariff Service of Russia, dated November 23, 2007, approved tariffs on local telephone communications services.

For individual subscribers:

- maximum tariff levels for local telephone connections per additional minute on the basis of combined payment systems were rounded to even numbers for subscribers in Moscow region;
- maximum tariff levels for local telephone connections on basis of flat fee payment system were decreased 37% to RUR180 in all affiliates except the Moscow branch where the tariff was set at RUR190 (RUR286 and RUR312 in 2006 accordingly);

Since the current tariffs based on flat fee payment system were established on average at 46.5% of the approved limit, the decrease in maximum tariffs will not influence the Company's revenue.

For corporate subscribers:

- maximum tariff level for local telephone connections per additional minute on the basis of combined payment system was established in the amount of RUR100;
- maximum tariff level for local telephone connections per additional minute on the basis of combined payment systems was established in the amount of RUR0.18 (RUR0.2 for Moscow region);
- maximum tariff levels for local telephone connections on basis of flat fee payment system were established in the amount of RUR286 (RUR312 for Moscow region).

Tariffs for access to local telephone network

Tariffs for individual subscribers have decreased 21% to 4.8 since February 1, 2008 (6.1 in 2007). Tariffs for corporate subscribers decreased 5% to 7 since February 1, 2008 (7.4 in 2007).

Tariffs for interconnection and traffic transfer services

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In accordance with Decree No.637 “About state regulation of tariffs for public telecommunications and post services” issued by the Government of Russian Federation on October 24, 2005, a compensation adjustment to the price for local and zone call initiation services was canceled starting January 1, 2008.

In accordance with Decree No. 666 issued by the Government of the Russian Federation on October 12, 2007 which amended the “Rules of Interconnection and interaction of Telecommunications Networks” maintenance services for telecommunications means forming POI has been excluded from interconnection service.

10.5. Universal Communications Services

According to the conditions of the tenders held, the Company plans to install 47,187 public pay telephones within 2008 in order to provide universal communications services in the Bryansk, Belgorod, Voronezh, Vladimir, Kaluga, Kostroma, Kursk, Orel, Lipetsk, Moscow, Ryazan, Smolensk, Tambov, Tver, Tula and Yaroslavl regions.

In 2008 the Company plans to begin providing universal telecommunications services throughout the Bryansk, Belgorod, Voronezh, Vladimir, Kaluga, Kostroma, Kursk, Orel, Lipetsk, Moscow, Ryazan, Smolensk, Tambov, Tver, Tula and Yaroslavl regions.

In February 2008 the Company won a number of additional tenders by the Federal Agency for Telecommunications for rights to provide universal telecommunications services through public pay telephones in the Ivanovo, Kaluga, Kostroma, Lipetsk, Moscow, Ryazan, Smolensk, Tambov, Tver, Tula and Yaroslavl regions.

10.6. Capital Investments

The Company plans to make capital investments in the amount of 6,587,904 in 2008, including the sum of 2,167,612 which will be invested in order to bring the Company’s networks in conformity with the requirements of the regulatory acts on telecommunications network development and traffic transfer, the amount of 495,353 for fulfillment of the Company’s liabilities on contracts for the provision of universal telecommunications services, and the sum of 14,641 for the provision of Internet access for Russia’s educational organizations within the framework of the Education National Project.

10.7. Decision of Moscow Arbitration Court on Declaring a Tax Claim by the Interregional Office No.7 of the Russian Federation Tax Administration against the Company on the Basis of the Results of a Tax Audit of the Company’s Operations for the Years 2004-2006 as Groundless

The Company contested in the Moscow Arbitration Court the decision by the Interregional Office No.7 of the Russian Federation Tax Administration declaring the Company accountable for a tax offence in the amount of RUR440 million. In accordance with the results of a consideration of the case in the court on March 26, 2008, the Moscow Arbitration Court ruled as groundless the tax claim in the amount of RUR440 million.

General Director

V. A. Martirosyan

Chief Accountant

A. D. Kartashov