

**CONCLUSION**  
**of the audit commission**  
**on the results of inspection of financial and economic activity, annual accounting**  
**statements and annual report of Central Telecommunication Company Open Joint-Stock**  
**Company**  
**(CenterTelecom OJSC)**  
**for the year 2006**

Moscow

April 4, 2007

The audit commission of CenterTelecom OJSC selected by the General Meeting of Shareholders on June 28, 2006 consisting of:

Commission Chairperson                      Korolyova O.G.

Commission Members                         Avdiyants S.P.

Veremyanina V. F.

Podosinov S.V.

guided by the powers as defined by the Federal Law On Joint-Stock Companies, the Articles of Incorporation of CenterTelecom OJSC and Provision on Audit Commission has inspected the financial and economic activity of the Company in 2006.

The audit of the annual statements of the Company for the fiscal year from January 1 to December 31, 2006 was performed according to the decision of the Audit Commission of CenterTelecom OJSC (Protocol No 3 of February 1, 2007) during the period from February 15 to April 4, 2007.

The analysis was carried out on the basis of documents, registers of the accounting and tax account, registers and the comments given by the management of the Company. The analysis included studying of the disclosure in the financial (accounting) statements of the information on financial and economic activity, an estimation of principles and book-keeping methods as well as rules of preparation of the financial (accounting) statements and annual report.

The Audit Commission used sampling methods of audit of operations of financial and economic activity.

**Brief Information About The Company**

*Full company name:* Central Telecommunication Company Open Joint-Stock Company

*Short name:* CenterTelecom OJSC

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

*Address of location of the executive office:* 6 Degtiarny Lane, Building 2, GSP-3, 125993 Moscow.

*Information on registration:* the Company was registered by Order of Moscow Region Governor No 567-p of June 9, 1994, State Registration Certificate No127 of June 20, 1994.

According to the Federal Law On Registration of Legal Entities the Company was registered in the Uniform State Register of Legal Entities on 1 November, 2002, registration number 1025006174710.

Persons responsible for book-keeping and the preparation of the Company's accounting statements in the period are as follows:

- General Director – R.A. Amaryan (July 14, 2005-May 10, 2006)  
S.V. Pridantsev (January 26, 2006 to the present date)<sup>1</sup>
- Chief Accountant – R.P. Konstantinova (September 15, 2000-January 26, 2006)  
A.D. Kartashov (February 07, 2006 to the present date).

The Company's supreme management body is the General Meeting of Shareholders, in the intervals between meetings – the Board of Directors, the Collegial Executive Body – the Management Board.

### Major Financial and Economic Indicators of the Company's Activity for The Year 2006

No	Indicator	2006	2005	Change (%)
1.	Proceeds from the sale of goods (works, services), million RUR	28395.3	27594	2.90
	Including telecommunication services	26 606	27 236	-2.31
2.	The prime cost of goods (works, services) sold, million RUR,	21212	21662	-2.08
	Including telecommunication services	20 398	21 501	-5.13
3.	Profit on sales, million RUR.	7 183	5 931	21.11
4.	Profit before tax, million RUR.	3 370	1 387	142.97
5.	Net profit, million RUR.	2 048	655	212.67
6.	OIBDA, million RUR.	10950.5	9295.3	17.81
7.	Operating margin (profitability of sales), %	25.3	21.5	17.67
8.	Profitability on profit on sales, %	33.86	27.38	23.67
9.	Prime cost of 100 RUR in proceeds, RUR.	78.5	74.7	5.09
10.	Proceeds per employee, thousand RUR.	478.73	428.75	11.66
11.	Financial independence ratio	0.37	0.34	8.82
12.	Working capital ratio	0.94	0.32	193.75
13.	Average redemption time, days	34.02	31.8	6.98
14.	Average payables period, days	81.39	88.24	-7.76
15.	Return on equity, %	12.87	4.26	202.11

Note: the procedure of calculation of financial and economic indicators is described in Appendix hereto.

On key indicators of activity for 2006 the Company has shown essential positive dynamics as compared to 2005. Sales proceeds have grown by 2.90%, and the prime cost has decreased by 2.08 %. The indicator of gain per worker (gain 11.66%) reflects continuing positive tendencies of development the Company connected with optimization of number of the

<sup>1</sup> According to decisions of Board of Directors (Protocol No 15) of January 25, 2006, (Protocol No 17) of February 9, 2006, (Protocol No 24) of April 20, 2006.

personnel. The growth of OIBDA indicator characterizing the operational activity of the company made up 17.81%.

The increase in profit on sales made up 21.11%. Profit before tax grew by 142.97%, net profit by 212.67%.

The indicators characterizing the Company's financial condition have a positive dynamics, showing considerable improvement.

The size of the Company's net assets as of December 31, 2006 made up 17,714.6 million RUR which substantially exceeds the size of the authorized capital.

### **Accounting Statements**

Book-keeping in the Company is organized according to the requirements to book-keeping in the Russian Federation set out in the regulatory legal acts and conducted on the basis of the Registration policy confirmed by Order of the General Director of the Company No564 of December 30, 2005 (amended by Order No126 of April 4, 2006).

The accounting statements for 2006 are prepared in the terms established by the Federal Law On Book-Keeping, in the scope of Balance Sheet, Profit and Loss Report, Appendices to them, an schedule on the basis of the reports presented under confirmed forms by branches being part of the Company.

Audit commission during audit of financial and economic activity of the Company for 2006 has not established essential infringements in observance of requirements of the legislation of the Russian Federation and essential distortions at reflexion of financial and economic operations.

The accounting statements of the Company allows to generate the full and objective information on financial and economic activity of the Company and its results, necessary for an operative management and control, as well as use by investors, creditors, state bodies and other interested organizations and persons.

### **Economic Activity Essential Facts**

For formation and putting in practice of activity of CenterTelecom OJSC of rules of civilized corporate relations on 9 February, 2006 the Company's Board of Directors confirmed the Corporate Management Code<sup>1</sup> in which principles of corporate behavior of the Company and bodies of its management in relations with shareholders are declared, as well as in general the place and the role of the Management Board and the Company in such relations are formulated.

The current edition of the Articles of Incorporation of CenterTelecom OJSC has been approved by the Annual General Meeting of Shareholders of the Company on June 28, 2006. Taking into account that after the named date, the Federal Law On Joint-Stock Companies had amendments, concerning provisions which have found reflexion in the Articles of Incorporation of CenterTelecom OJSC it should be mentioned that the basic document of the Company demands modification.

Transactions, in which there is interest, were made by the Company in 2006. The Company did not suppose rough infringements of the established order of their fulfillment, enabling to recognize such transactions void.

In the checked period the membership of Board of Directors was changed on 28 June, 2006.

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<sup>2</sup> According to the decision of Board of Directors (Protocol No17) of February 9, 2006.  
The information on the Company site at <http://www.centertelecom.ru/ru/about/docs/kodeks/kod.htm>

The membership of the Management Board of the Company was changed on the basis of decisions of the Board of Directors of CenterTelecom OJSC on February 9, 2006 (Protocol No17), March 6, 2006 (Protocol No20), July 28, 2006 (Protocol No3) and November 24, 2006 (Protocol No12).

On April 20, 2006 (Protocol No24) Sergey Vladimirovich Pridantsev was appointed General Director by the decision of Board of Directors with a term of appointment 2 years. The contract with General Director is confirmed by the Board of Directors<sup>1</sup>.

Decisions of the Board of Directors and the Company's Management Board were adopted with observance of legislative requirements, the Articles of Incorporation of CenterTelecom OJSC, Provision on the Board of Directors, Provision on the Management Board, Code of Conduct.

Disclosing of the information in the form of messages on essential facts, the quarterly report of the emitter was carried out by the Company according to the order provided by Regulations on disclosing of the information by emitters of equity securities approved by Order of the Federal Service on the Financial Markets of the Russian Federation No 05-5/ПЗ-Н of March 16, 2005. No facts of rough infringements of the given order have been revealed.

The list of affiliates of the Company corresponds to the form specified in Regulations on disclosing of the information by emitters of equity securities. The given information, as well as messages on essential facts and reports of the emitter are published on the Company's site.

### **Internal Control System**

Since June 29, 2005 the Provision on the procedures (system) of the internal control of CenterTelecom OJSC has been in operation at the Company (Protocol of session of Board of Directors No36 of June 29, 2005) which establishes the competence of bodies and the persons who are entering into system of the internal control and carrying out working out, approval, application and estimation of efficiency of procedures of the internal control.

The system of bodies and divisions which are carrying out various functions of the internal control are operating, in particular: Audit Commission, Audit Committee of the Board of Directors, Internal Audit Department, other divisions responsible for various control functions.

The Committee of Board of Directors on audit operates according to the Company's Articles of Incorporation, the Code of Conduct, and Regulations on Audit Commission of Board of Directors. The Committee of Board of Directors on audit carries out functions of the internal control by means of preliminary consideration and preparation of recommendations to Board of Directors concerning the financial statements, external independent audit, internal audit, procedures of the internal control, and also the risks connected with completeness of disclosing of the information.

The department of internal audit inspects the efficiency of operating internal control procedures according to regulations, carries out regular complex and thematic checks of structural divisions of the Company. Results of checks are not rarer than once in a quarter are presented to Audit Commission.

### **Conclusion**

The results of inspection of financial and economic activity of the Company enable the Audit Commission to make the following conclusion:

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<sup>3</sup> According to the formulation of the decision of Board of directors of April 20, 2006 (Protocol No24).

- The accounting statements for 2006 adequately reflect every essential aspect of the financial situation at the Company and results of its financial and economic activity in the period from January 1 to December 31, 2006 ,
- The key provisions of the annual report presented by the Company which must be reflected under the effective law contain true information,
- Decisions pertaining to the financial and economic activity were adopted in 2006 by the Board and the Company's Board of Directors according to the effective legislation and the Company's Articles of Incorporation.

Audit Commission Chairperson  
CenterTelecom OJSC

O.G. Korolyova

Audit Commission Members

S.P. Avdiyants

V.F. Veremyanina

S.V. Podosinov

## Appendix

### Procedure of Calculation of the Major Financial and Economic Indicators

**1 OIBDA**

Profit on sales + Amortization (OC+HA)

**2 Operation margin**

Profit on sales\*100/ Sales Proceeds

**3 Profitability on profit per sales**

Profit on sales\*100 / Prime cost

**4 Prime cost of 100 roubles in proceeds**

Prime cost\*100/ Proceeds

**5 Proceeds per worker**

Proceeds / Average number

**6 Financial independence ratio**

Line 490 (ф.1 accounting statement (balance))

Line 300 (ф.1 accounting statement (balance))

**7 Working capital ratio**

Line 290-line 230 (ф.1 accounting statement (balance))

Line 610 + line 620 (ф.1 accounting statement (balance))

**8 Average redemption time**

$\Delta_H$  - size of redemption at the beginning of the period (p. 240 ф.1 accounting statements)

$\Delta_K$  - size of redemption at the end of the period (p. 240 ф.1 accounting statements)

$(\Delta_H + \Delta_K) / 2$

(Proceeds (Line. 010 (ф.2 accounting statements)): 360

**9 Average payables period**

$K_H$  - size payables at the beginning of the period (Line 620 (ф.1 accounting statement))

$K_K$  - size payables at the end of period (Line 620 (ф.1 accounting statement))

$(K_H + K_K) / 2$

(Line 020 + p. 030 + p. 040 (ф.2 accounting statement)): 360

**10 Return on equity**

$CK_H$  - size of own capital at the beginning of the period (p. 490 (ф.1 accounting statement))

$CK_K$  - size of own capital at the end of the period (p. 490 (ф.1 accounting statement))

Line 190 (ф.2 accounting statement) \* 100 %

$(CK_H + CK_K) / 2$