

EXPLANATORY NOTES
to Financial Statements of
CenterTelecom OJSC for 2006

TRANSLATION OF ORIGINAL RUSSIAN VERSION

TRANSLATION OF ORIGINAL RUSSIAN VERSION

Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2006 Contents

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Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2006 General

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 "On 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 56,317 persons as of December 31, 2006 (65,208 persons as of December 31, 2005).

In accordance with the licenses obtained, the core activities of the Company include:

- provision of local and intrazone telephone communication services;
- provision of local telephone communication services with the use of coin-boxes and shared stations;
- provision of cellular mobile communication services (GSM-900, GSM-1800, NMT-450, AMPS/D-AMPS);
- lease out of physical communication circuits, channels and paths, including broadcasting channels;
- provision of telematic services (including electronic mail service, information resources access service, information service, Telefax service, Comfax service, Bureau fax service, message processing service, voice message service, voice transmission service, audio conference calls, video conference calls, Internet);
- provision of data transmission services;
- other.

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Registrar:

Full trade name: *Open Joint Stock Company Associated Registration Company*
Abbreviated trade name: **ORK OJSC**
Registered office: *70 Pyatnitskaya str., Moscow, 113095*
Postal address: *P.O.Box 162, 15a Kalanchevskaya str., Moscow, 107078*
Telephone: *(495) 933-42-21*
Fax: *(495) 933-42-21*
E-mail: ork@ork-reestr.ru
Registrar's license for keeping securities holders' register: *10-000-1-00314*
Date of issue: *March 30, 2004*
Valid for: *unlimited term*
Issuing authority: *the Federal Commission for Securities Market*
Registrar keeps the Issuer's securities register from: *December 13, 2005*

Auditor:

Name: *Ernst and Young LLC*
Registered office: *build. 1, 77 Sadovnicheskaya emb., Moscow, 115035*
Postal address: *build. 1, 77 Sadovnicheskaya emb., Moscow, 115035*
Telephone: *(495) 755-97-00*
Fax: *(495) 755-97-01*
E-mail: moscow@ru.ey.com
Auditor's license:
License number: *E002138*
Date of issue: *September 30, 2002*
Valid for: *5 years*
Issuing authority: *Ministry of Finance of the Russian Federation*

Board of Directors:

Chairman of the Board of Directors:

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

Members of the Board of Directors:

- **Nikolai Bagratovich Arutyunov** – Director of Analytics Department, Moscow Representative Office of NCH Advisor Inc.;
- **Boris Dmitrievich Antonyuk** – Deputy Minister of Information Technologies and Telecommunications of the Russian Federation;
- **Andrei Vladimirovich Beskorovainyi** – Head of the Federal Telecommunications Agency;
- **Valery Viktorovich Degtyaryov** – General Director, Professional Telecommunications CJSC;
- **Sergei Ivanovich Kuznetsov** – Deputy Chairman of the Board of Directors, CenterTelecom OJSC;
- **Dmitry Alexandrovich Milovantsev** – Deputy Minister of Information Technologies and Telecommunications of the Russian Federation;

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- **Oksana Valerievna Petrova** – Head of Methodology and Information Department, Department for Corporate Management and Legal Support, Svyazinvest OJSC;
- **Viktor Dmitrievich Savchenko** – Executive Director, Director of Department for Corporate Management and Legal Support, Svyazinvest OJSC;
- **Elena Petrovna Sel'vich** – Executive Director, Director of Department for Economics and Finance, Svyazinvest OJSC;
- **Valery Nikolaevich Yashin** – member of the Board of Directors, CenterTelecom OJSC.

Management Board:

Chairman of the Management Board:

- **Sergei Vladimirovich Pridantsev** – General Director, CenterTelecom OJSC;

Members of the Management Board:

- **Pavel Valerievich Antyushin** – Director of Department for Legal Support, CenterTelecom OJSC;
- **Alexander Pavlovich Gribov** – Administrative Director, CenterTelecom OJSC;
- **Dmitry Valerievich Karmanov** – Deputy General Director, HR Director, CenterTelecom OJSC;
- **Andrei Dmitrievich Kartashov** – Chief Accountant, CenterTelecom OJSC;
- **Alexander Ivanovich Kirillov** – Deputy General Director, Technical Director, CenterTelecom OJSC;
- **Alexander Alexandrovich Lutskiy** – Deputy General Director, Financial Director, CenterTelecom OJSC;
- **Sergei Viktorovich Nazarov** – Deputy General Director, Commercial Director, CenterTelecom OJSC;
- **Dmitry Anatolievich Parkhomenko** – Director for Legal Issues and Relations with Governmental Authorities, CenterTelecom OJSC.

Audit Committee:

Chairman of the Audit Committee:

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

Members of the Audit Committee:

- **Stanislav Petrosovich Avdiyants** – Executive Director, Director of Department for Strategic Development, Svyazinvest OJSC;
- **Valentina Fyodorovna Veremyanina** – Deputy Director of Department for Corporate Governance and Legal Support, Svyazinvest OJSC;
- **Elena Petrovna Degtyaryova** – Member of the Audit Committee, CenterTelecom OJSC;
- **Sergei Vladimirovich Podosinov** – Deputy Head of Internal Audit Department, Svyazinvest OJSC;
- **Ilya Vladimirovich Ponomaryov** – Member of the Audit Committee, CenterTelecom OJSC;
- **Ivan Vladimirovich Topolya** – Member of the Audit Committee, CenterTelecom OJSC.

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Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2006 Accounting Policy

3. Accounting Policy

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

Basis of preparation

The Company keeps accounting records in accordance with Federal Law No. 129-FZ, dated November 21, 1996, "On Accounting" (as amended on July 23, 1998, March 28 and December 31, 2002; January 19, May 28, June 30, 2003) 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, and March 24, 2000), as well as applicable Accounting Statements.

Financial statements of the Company for 2006 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, 2005	December 31, 2006
US dollar	28.7825	26.3311
Euro	34.1850	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, 2006, hence, comparable data are calculated based on the official exchange rate as of December 31, 2005.

Short-term and long-term assets and liabilities

Assets (liabilities) in the statements are referred to short-term assets (liabilities), if the term of circulation (repayment) thereof does not exceed 12 months upon the reporting date. All the other assets and liabilities are presented in the statements as long-term.

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Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2006 Accounting Policy

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 whole term of operation.

Fixed assets include the real estate items accepted for operation and actually used before the state registration of the title to such items.

Depreciation of fixed assets is accrued by the straight-line method based on the accepted useful life :

buildings	-	7 -100 years
constructions and switches	-	7 - 59 years
telecommunication equipment	-	7 – 30 years
vehicles	-	3,5 – 10 years
computer and office equipment	-	4 – 12 years
other items	-	2 - 16 years

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 created.

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.

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Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2006 Accounting Policy

Depreciation on the fixed assets received under financial lease contracts before 2006 and accounted for as the Company's fixed assets is accrued by the straight-line method based on the useful life equal to the term of the lease.

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 money value agreed upon by founders (participants) of such companies.

Financial investments, for which a stable material impairment is determined as of the end of 2006, 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.

In case of sale or another disposal of securities, for which no current market value is determined, issued securities to be disposed of were evaluated by the first in, first-out method (FIFO); non-issued securities to be disposed were evaluated at actual value of each security.

Research and development costs

Research and development works completed as of December 31, 2006, are included in other non-current assets, when their results are not subject to legal protection in accordance with the effective laws, or are subject to legal protection but have not been formalized according to the applicable legal procedure, and the Company expects future economic benefits from their use for operating and managerial purposes.

Research and development works uncompleted as of December 31, 2006, are reflected in capital investments.

Completed and uncompleted R&D works are measured by amount of all expenses related to their performance.

The cost of completed R&D is written off to operating expenses by the straight-line method within the period when it is expected to generate economic benefits, however, not more than 3 years.

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;

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Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2006 Accounting Policy

- inventories manufactured by the organization – total amount of manufacturing costs ;
- 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.

Deferred expenses

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

Deferred expenses related to purchase and deployment 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 .

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Central Telecommunication Company OJSC **Explanatory Notes to Financial Statements for 2006** Accounting Policy

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 telecommunication services is impossible in telecommunication companies because of a great number of subscribers, the provision is created in the amount of 100 percent of all outstanding debts for telecommunication services, overdue 90 days and more as of the date of provision creation. No provision is created for debts overdue less than 90 days.

Provision for debts of social security authorities on compensation for expenses related to privileges on telecommunication 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.

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.

The Company revalues the loans and borrowings denominated in foreign currency and/or conventional monetary units as of every reporting date. Differences arising from revaluation are charged to other expenses.

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.

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;
- 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.

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Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2006 Accounting Policy

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

Revenue

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.

Expenses

The Company calculates full production cost of the services provided, works 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 02, 2006, "Approval of Procedure for Separate Accounting by Telecommunication Operators of Revenues and Expenses by Types of Activities, Telecommunication Services Provided and Parts of Telecommunication Network Used to Provide Such Services".

Provisions for future expenses

The Company creates provision for vacations of employees and provision for future expenses on yearend bonuses.

Expenses on creation of the provisions are charged to operating expenses, as well as to other expenses depending on the type of activities, in which employees taken into account in calculating provisions for future expenses are engaged.

Pensions

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Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2006 Accounting Policy

Social charges are made through payment of unified social tax calculated by the Company at regressive rate, amounts of which are given in clause 1, Article 241 of the Tax Code of the Russian Federation. The tax base for unified social tax is measured at the amount of salary and other remuneration of every employee. The Company pays unified social tax to three governmental non-budgetary funds: the Pension Fund of the Russian Federation, the Fund of Social Insurance of the Russian Federation, and the Fund of Obligatory Medical Insurance 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 9 hereof.

Changes in the Accounting Policy for the year 2006

No changes in the accounting policy that could considerably influence the financial statements were made in 2006.

Changes in the Accounting Policy for the year 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, , accounting for assets and liabilities denominated in foreign currency and payable in rubles will be changed in 2007.

According to the new regulations, for the purpose of financial statements amounts denominated in foreign currency and payable in Rubles are to be translated in Rubles at the official rate of 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.

No other changes will be made in the accounting policy for 2007 that could considerably influence the financial statements .

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Central Telecommunication Company OJSC

Explanatory Notes to Financial Statements for 2006

Analysis and Evaluation of Balance Sheet Structure and Profit Dynamics

(in KRUR, unless specified otherwise)

4. Comparative data

Comparative data (corresponding figures) in the Company's financial statements for 2006 are generated through adjusting the financial statements for 2005 and bringing them into correspondence with the indicators for 2006.

Changes in the opening balance as of January 01, 2006

Line code	Balance as of 31.12.2005	Balance as of 01.01.2006	Deviations	Comments
130	2,029,012	2,026,268	(2,744)	Construction in progress valued under KRUR 10 transferred to line 211.
145	224,296	296,658	72,362	Deferred tax assets on provision for unused vacations in the amount of KRUR (72,362) (line 16).
150	3,425,635	3,428,746	3,111	Advance on software products transferred from line 242.
190	39,103,089	39,175,818	72,729	Total section
210	1,150,003	1,152,747	2,744	Construction in progress valued under KRUR 10 transferred from line 130.
211	534,800	537,544	2,744	Construction in progress valued under KRUR 10 transferred from line 130.
242	145,856	146,786	930	Advance on software products in the amount of KRUR (3,111) transferred to line 150; and advances on land lease in the amount of KRUR 4,041 transferred from line 243.
243	376,550	368,105	(8,445)	Advances on land lease in the amount of KRUR 4,041 transferred to line 242; VAT on advances in the amount of KRUR 3,715 extracted; and profit tax balance in the amount of KRUR 689 netted.
290	6,075,436	6,070,665	(4,771)	Total section
300	45,178,525	45,246,483	67,958	Total balance sheet
420	646,822	70,946	(575,876)	Other elements of additional paid-in capital in the amount of KRUR 575,876 reclassified in line 460 (see Note 6.12 hereof).
460	8,623,963	8,970,692	346,729	Liabilities in the amount of provision for unused vacations in the amount of KRUR (301,509) and deferred tax assets on the provision for unused vacations in the amount of KRUR 72,362 reflected. Other elements of additional paid-in capital in the amount of KRUR 575,876 reclassified from line 420.
490	15,614,344	15,385,197	(229,147)	Total section
620	4,646,768	4,642,364	(4,404)	Total line
621	2,739,893	2,739,946	53	Land lease payables in the amount of KRUR 53 transferred from line 625.

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Line code	Value as of 31.12.2005	Value as of 01.01.2006	Deviations	Comments
622	430,960	427,245	(3,715)	Netted VAT on advances in the amount of KRUR 3,715
625	526,875	526,140	(735)	Land lease payables in the amount of KRUR (53) transferred to line 621; payables of vehicle owners in the amount of KRUR 7 transferred from line 626; profit tax balance in the amount of KRUR (689) netted.
626	936,064	936,057	(7)	Tax payables in the amount of KRUR 7 transferred to line 625.
650	150,566	452,075	301,509	Liabilities on provision for unused vacations in the amount of KRUR (301,509) recognized.
690	19,641,530	19,938,635	297,105	Total section
700	45,178,525	45,246,483	67,958	Total Balance Sheet
901	2,504,712	2,486,213	(18,499)	Property items that are not owned by the Company eliminated in accordance with the requirements of the corporate Accounting Policy.
909	142,058	225,912	83,854	Included pay phone cards expenses

Due to recognition of the provision for future expenses on unused vacations (see Note 3 hereof), line 650 "Provisions for future expenses" was adjusted as of the beginning of the reporting period in the amount of KRUR 301,509 , and line 145 "Deferred tax assets" in the amount of KRUR (72,362).

This resulted in changing the amount in line 460 "Retained earnings (uncovered loss) of past years" in the amount of KRUR (229,147) .

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Analysis and Evaluation of Balance Sheet Structure and Profit Dynamics

(in KRUR, unless specified otherwise)

Changes in the comparative information for 2005 in the Profit and Loss Statement:

Line code	Column 3, Form 2 for 2005	Column 4, Form 2 for 2006	Deviations	Comments
020	(21,248,503)	(21,662,209)	(413,706)	Expenses on provision for unused vacations in the amount of KRUR 17,871 recognized; and payments to personnel in the amount of KRUR 395,835 transferred from line 100.
050	6,345,107	5,931,401	413,706	Total
090	45,639	343,571	297,932	Non-operating and extraordinary income transferred from lines 120 and 170, respectively.
100	(1,364,457)	(2,547,607)	(1,183,150)	Non-operating and extraordinary expenses in the amount of KRUR 1,578,985 transferred from lines 130 and 180, respectively; and payments to personnel in the amount of KRUR 395,835 . transferred to line 020
120	295,388	---	(295,388)	Transferred to line 090.
130	(1,577,694)	---	1,577,694	Transferred to line 100.
140	1,403,160	1,386,542	(16,618)	Total
150	(735,908)	(731,619)	4,289	Total
152	52,593	56,882	4,289	Deferred tax assets on provision for unused vacations in the amount of KRUR4,289 recognized
160	667,252	---	(667,252)	Total
170	2,543	---	(2,543)	Transferred to line 090.
180	(1,291)	---	1,291	Transferred to line 100.
190	668,504	654,923	(13,581)	Total
201	(337,059)	(332,770)	(4,289)	Deferred tax assets on provision for unused vacations in the amount of KRUR 4,289 recognized.

In accordance with Orders No. 115n and No. 116n of the Ministry of Finance of the Russian Federation dated September 18, 2006, "On Amendment of Regulatory Legal Acts on Accounting", the lines reflecting non-operating income and expenses and extraordinary income and expenses were eliminated from the Profit and Loss Statement in the financial statements for 2006. In this connection, the Company has changed the presentation of comparative information about other income and expenses for 2005. Amounts reflected in 2005 in excluded lines 120 "Non-operating income" and 170 "Extraordinary income" are shown in line 090 "Other income" of the Profit and Loss Statement for 2006. Information about other expenses is presented in a similar way.

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Based on the prudence considerations and for the purpose of generating reliable information about the liabilities as of the end of the reporting period, the Company has created a provision for future expenses on payment for unused vacations of the employees in the financial statements for 2006, since in virtue of the acting laws, the Company has obligations on such payments as of the end of the reporting period. The amount of the provision was defined based on the results of inventory taking and was KRUR 337,744 as of December 31, 2006.

The Company did not create such a provision in the previous reporting periods. In accordance with the current regulations on accounting and reporting, expenses on the creation of the provision for unused vacations as of January 1, 2006, are to be included in the financial results of 2006 without any adjustment of accounting records or financial statements for the previous reporting year. Taking into account calculation and reflection of this provision in the previous reporting periods, the Company's management assesses it in the amount of KRUR 301,509 .

The Company's management believes that adjustment of the relevant indicators of the previous periods in the financial statements for 2006, as if the Company created such a provision earlier, will ensure the most reliable and complete representation of the Company's financial position and financial performance, and any changes in its financial position over the reporting period and previous periods. The Company's management believes that such adjustment of the relevant indicators of the previous periods will make them comparable with the data for the reporting period related to this element of the Company's economic activities.

Therefore, when preparing the financial statements for 2006, the Company adjusted the comparable data on the provision for future expenses on unused vacations of employees for 2005 in the financial statements for 2006 as follows:

The Balance Sheet (Form No. 1), column 3 "At year beginning ":

- line 650 "Provisions for future expenses" was increased by the amount of the provision for vacations unused as of December 31, 2005, in the amount of KRUR 301,509 ;
- line 145 "Deferred tax assets" was increased by the amount of unused deductible difference related the relevant provision as of December 31, 2005, in the amount KRUR 72,362 ;
- line 460 "Retained earnings (uncovered loss) of past years" was reduced by the amount of difference between the above amounts of increase in provision for future expenses and deferred tax assets.

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The Statement of Changes in Equity (Form 3):

- the change in “Retained earnings (uncovered loss)” in line 100 “Balance as of December 31, 2004” and line 104 “Balance as of January 1, 2005” includes a decrease in retained earnings in the amount of KRUR 215,565 determined in accordance with the described approach to recognition of liabilities on unused vacations as of December 31, 2004 , as if the provision for future expenses was created in 2004;
- the amount of net profit for 2005 in line 202 “Net profit (loss) of the reporting year” was adjusted by the amount of KRUR (13,582) as a result of applying the relevant accounting procedure to the creation of provision for future vacations;
- the change in “Retained earnings (uncovered loss)” in line 300 “Balance as December 31, 2005” and line 304 “Balance as of January 1, 2006” includes a decrease in retained earnings in the amount of KRUR 229,147 determined in accordance with the described approach to recognition of liabilities on unused vacations as of December 31, 2005 , as if the provision for future expenses was created in 2005;

The Profit and Loss Statement (Form 2):

In the column “Similar period of the previous year”, the lines “Cost of goods, products, works, services sold”, “Profit (loss) before taxes”, were adjusted by the amount of KRUR (17,871) , and the line “Deferred tax assets” by the amount of KRUR 4,289 , as if the Company created the provision for future expenses in 2005.

5. Analysis and Evaluation of Balance Sheet Structure

Analysis and evaluation of Balance Sheet Structure

As of December 31, 2006, the balance sheet structure is characterized by the following indicators:

Indicator	01.01.2006	31.12. 2006
Quick liquidity ratio	0.0480	0.2040
Current liquidity ratio	0.3045	0.8194
Capital ratio	-3.9189	-2.6256
Margin rate	21.50%	25.30%

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Quick liquidity ratio is calculated as the relation of cash (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).

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).

Capital ratio is calculated as the relation of the own current assets (item 490 less line 190 of the Balance Sheet) to the total amount of current assets (item 290 of the Balance Sheet).

Margin rate is calculated as the relation of profit from sales (item 050 of the Profit and Loss Statement) to revenues from sales (item 010 of the Profit and Loss Statement).

In 2006, the Company repaid its loan liabilities in a timely manner, as well as prepaid the liabilities with increased interest rates, which resulted in a considerable decrease in short-term liabilities as of December 31, 2006. Moreover, liabilities on bonded loan, series 04, in the amount of RUR 5,622 mln were reclassified from short-term debts to long-term debts due to the fact that obligations on the offer were performed on November 16, 2006. Over that period, the Company did not receive any written notice from the bond holders as to their intention to sell the bonds on the conditions set forth in the offer.

The Company's Financial Strategy adopted in August 2006 aims at further optimization and decrease of the debt burden for the period of 2007 – 2009, as well as provides for further improvement of the Balance Sheet structure, which will mean further increase in the liquidity level.

Movement in profit indicators in 2006

Activity	Revenues (line 010, Form 2)		Cost (line 020, Form 2)		Profit (line 050, Form 2)		Profit dynamics D, %
	2006	2005	2006	2005	2006	2005	
Telecommunication services	26,606,202	27,235,855	20,398,390	21,501,117	6,207,812	5,734,738	108.25, %
Other	1,789,055	357,755	813,881	161,092	975,174	196,663	495.86, %
TOTAL:	28,395,257	27,593,610	21,212,271	21,662,209	7,182,986	5,931,401	121.10, %

According to performance of 2006, profit from sales increased by 21.10% against 2005.

The major factors that influenced the existing movement in profit from sales include:

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- growth of income on intrazone telephone communication due to the introduction of CPP principle (Calling Party Pays) caused by the enforcement of amendment to Article 54 of the Law “On Telecommunications” from July 1, 2006;
- growth of income on local communication due to an increase in tariffs for local telephone connections in the end of 2005;
- reduction of expenses on long-distance communication caused by the changing principles of long-haul communication services provision from January 1, 2006.

As the license conditions of CenterTelecom OJSC were changed to meet the requirements of the new regulatory acts (Decree No. 87 of the Government of the Russian Federation, dated February 18, 2005, “Approval of List of Telecommunication Services Included in Licenses, and Lists of License Conditions”, No. 161, dated March 28, 2005), contractual relationships between the Company and Rostelecom OJSC concerning the provision of long-distance communication services and the procedure for mutual settlements have changed since January 01, 2006.

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Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2006

Notes to Significant Balance Sheet Items

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6. Notes to Significant Balance Sheet items

6.1. Fixed assets (item 120 of the Balance Sheet)

Change in the value of fixed assets

Indicator	2006	2005
Increase in value of fixed assets, total	3,820,834	6,409,467
including :		
purchase of new items	718,247	1,093,318
construction, modernization and reconstruction of the existing items	2,896,147	4,918,117
received free of charge	5,557	73,643
other income	200,883	324,389
Decrease in value (disposal) of fixed assets, total	(624,157)	(357,144)
including :		
sale of fixed assets	(78,365)	(35,133)
write-off of fixed assets	(510,066)	(241,289)
reconstruction (partial liquidation) of fixed assets	(11,977)	(3,133)
other disposals	(23,749)	(77,589)
Change in depreciation, total	(3,497,224)	(3,488,060)
depreciation accrued over the period	(3,999,706)	(3,793,829)
depreciation of items sold	58,023	28,916
depreciation of items written off	432,928	219,268
depreciation of other disposals	11,531	57,585
Total change in value of fixed assets	(300,547)	2,564,263

The major portion of increase in the value of fixed assets is due to the purchase of new items (industrial property) – 18.80% and construction of new items (communication lines, structures) – 59.44 %.

Historical cost of fixed assets, which are depreciated by 100%, but still remain in operation as of December 31, 2006, is KRUR 7,096,661 (KRUR 5,891,527 as of December 31, 2005).

Fixed assets received under lease contracts

As of December 31, 2006, the Company has concluded 222 financial lease contracts for lease of switches, other network equipment and motor vehicles. Terms of lease range from 26 to 60 months.

On April 28, 2006, the Company entered into release agreements to the financial lease contracts with VTB-Leasing OJSC in the amount of KRUR 1,004,893, and with Petroleasing-Management CJSC in the amount of KRUR 879,000.

The total amount of payments under these agreements made will be KRUR 1,884,793 within their terms (36 months, 33 months).

Moreover, equipment in the amount of RUR 74,825 was received under the financial lease contracts concluded earlier with RTK-Leasing OJSC in the amount; the term of the contract is 60 months.

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Value of fixed assets received under lease contracts:

Indicator	As of 01.01.2006	As of 31.12.2006
Fixed assets reflected on the Company's balance sheet:		
- historical cost of fixed assets	5,353,536	5,367,385
- depreciation charged on fixed assets	(1,855,960)	(2,757,101)
- book value of fixed assets	3,497,576	2,610,284
Fixed assets on the lessor's balance sheet:		
- contractual cost of fixed assets	478,543	1,857,397

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 net of advance in item 150 of the Balance Sheet)	on fixed assets on the lessor's balance sheet (not included in liabilities)
2007	1,856,787	1,097,653	759,134
2008 - 2012	2,023,685	1,401,553	622,132
TOTAL:	3,880,472	2,499,206	1,381,266

6.2. Construction in progress (item 130 of the Balance Sheet)

Indicator	As of 01.01.2006	As of 31.12.2006
Investments into non-current assets, total:	1,734,330	1,870,318
including:		
construction, modernization and reconstruction of fixed assets	1,656,978	1,807,667
acquisition of fixed assets under leasing contracts	62,425	53,586
acquisition of individual fixed assets	9,889	4,919
capital investments in leased fixed assets	3,000	1,401
R&D in progress	739	2,542
other	1,299	203
Equipment to installation	291,938	371,351
TOTAL:	2,026,268	2,241,669

The Company developed 798 investment projects in 2006.

Capital investments made in 2006 amounted to KRUR 3,857,680 ; the value of commissioned projects is KRUR 3,614,403.

Of the total capital expenditures in 2006, capital investments in the amount of KRUR 347,259 were made to bring the Company's network in conformance to the requirements of the regulatory acts on building telecommunication networks and traffic transfer.

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6.3. Financial investments (items 140 and 250 of the Balance Sheet)

Section 4, Form 5 of the Appendix to the Balance Sheet shows information about value of financial investments with breakdown by types.

Investments in subsidiaries, associates and other companies (items 141, 142, 143 of the Balance Sheet)

The main investments of the Company in authorized capitals of subsidiaries, associates and other companies:

Company name	Activity	Value of investments as of 31.12.2006	Interest in authorized capital, %	Share of voting stock, %
Subsidiary companies				
- RTS OJSC	telephony, data transmission, telematic services, rent of communication channels, system integration	1,449,085	100	100
- ATS CJSC	telephony, data transmission, telematic services	150,514	100	100
- TverTelecom LLC	local telephone communication, data transmission, telematic services	17,247	85	85
- Vladimir Teleservice CJSC	Internet, IP-telephony services	2,948	100	100
- MobilCom LLC	mobile radiotelephone communication 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 telecommunication means, data transmission network services, cellular communication	151	100	100
- Vladimir Taxofon LLC	local communication services through universal card phones	93	51	51
- CenterTelecom Service CJSC	local communication services, data transmission, rent of channels	75	74.9	74.9
- PVP Svyaz-Service-Irga LLC	design and laying of communication lines, technological telecommunication equipment installation, telecommunication equipment commissioning works; sales and procurement, agency, marketing activities; repair of devices and equipment	16	70	70
Provision for impairment		(1 072 583)		
Total		551 053		
Company name	Activity	Value of investments as of 31.12.2006	Interest in authorized capital, %	Share of voting stock, %
Associated companies				
- TeleRossVoronezh CJSC	rent of telecommunication means	585	50	50

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- 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		25		
Financial investments into other entities				
- Svyazintek OJSC		20,604	18	18
- Kostars Insurance Company CJSC	life insurance for telecommunication companies' employees	2,815	9.30	9.30
- AKB Svyaz-Bank OJSC	banking	1,796	0.08	0.08
- KB Tulskey 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 telecommunication networks	5	0.06	0.06
- Informsvyaz-Chernozemie Information Company CJSC	data transmission: IP-telephony, Internet access, digital communication channels	4	4	4
- Cellular Communications of Chernozemie CJSC	Cellular communication NMT-450 standard	0.051	0.076	0.076
Provision for impairment in value	-	(165)		
Total		26,709		
TOTAL: (sum of balance sheet items 141, 142, 143)		577,787		

Income received in the form of dividends from financial investments is reflected in item "Income from participation in other entities" of the Profit and Loss Statement in the amount of KRUR 15,472 (KRUR 6,163 in 2005).

The Company sold shares of the following companies in 2006:

- Smolensk Cellular Communications CJSC;
- Belgorod Cellular Communications CJSC;
- Lipetsk Mobile CJSC;
- Shuisky Oil Extraction Plant OJSC;
- Krugozor Health Center CJSC;
- Bank of Social Development and Construction Lipetskcombank OJSC;
- Belgorodpromstroibank OJSC;
- Prio-Vneshtorgbank OJSC.

Value of the shares disposed in the amount of KRUR 6,793 was included in other expenses and shown in item 100 of the Profit and Loss Statement. Proceeds from sale are KRUR 23,952 and are shown in item 090 of the Profit and Loss Statement.

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Additional expenses of the Company on the sale of shares of the above companies in the amount of KRUR 1,274 were included in other expenses and shown in item 100 of the Profit and Loss Statement.

Joint venture

Financial investments in line 144 of the Balance Sheet include the Company's contribution into joint operations with Topsnabinvest LLC and Bowling-Center LLC in the form of ordinary partnership for creation, development and commercial operation of CDMA cellular communication switch system in the town of Ivanovo and Ivanovo Region. The Agreement was made in 1998 for the term of 12 years.

The Company's share in the total contractual liabilities is KRUR 6,491; in jointly incurred expenses – 30%, in jointly received income – 30%.

Financial results under the ordinary partnership agreement are distributed among partners on a quarterly basis in proportion to the participation interest.

The Company incurred losses in the amount of KRUR 502 from joint operations with Topsnabinvest LLC and Bowling-Center LLC in 2006 (profit of KRUR 493 in 2005). This loss is reflected in other expenses of the Company.

Other long-term and short-term financial investments

Other financial investments include:

Entity name	Financial investment	Number of securities	Book value	Maturity date
Long-term				
RTK-Leasing OJSC	promissory note	45	1,091,045	from 24.01.2008 up to 23.09.2011
AK Voronezh	promissory note	1	104	28.02.2012
AK Voronezh	promissory note	1	58	14.03.2011
Short-term				
RTK-Leasing OJSC	promissory note	10	834,025	from 23.03.2007 up to 24.12.2017
AKB Promsvyazbank CJSC	term deposit	---	180,036	29.06.2007
AKB Svyaz-Bank OJSC	term deposit	---	180,000	01.07.2007

In December 2006, the Company acquired promissory notes of RTK-Leasing OJSC for the total amount of KRUR 1,925,070. Nominal value of the promissory notes is KRUR 2,269,969 (see also clause 6.15. hereof).

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Central Telecommunication Company OJSC Explanatory Notes to Financial Statements for 2006 Notes to Significant Balance Sheet Items (in KRUR, unless specified otherwise)

Provision for impairment of financial investments in 2006

Financial investments	Provision as of 01.01.2006	Provision created in 2006	Provision used in 2006	Provision recovered in 2006	Provision as of 31.12.2006
Provision, total	21,414	1,056,553	1,331		1,076,636
including					
RTS OJSC	-	1,053,085	-	-	1,053,085
MobilCom OJSC	2,250	-	-	-	2,250
TverTelecom LLC	17,247	-	-	-	17,247
VladPage LLC	41	-	41	-	-
TeleRossVoronezh CJSC	585	-	-	-	585
Optimum-Svyaz CJSC	1	9	-	-	10
Krugozor Health Center OJSC	1,290	-	1,290	-	-
Comset OJSC	-	155	-	-	155
Contributions in joint operations	-	3,304	-	-	3,304

Based on prudence considerations, the Company created a provision for impairment of investments in RTS OJSC (Russian Telecommunication Network) as of December 31, 2006.

The Company's management believes that impairment of financial and economic indicators and results of measurement of market value of ordinary registered shares of RTS OJSC confirm a steady trend towards a decrease in the value of this financial investment. Due to these reasons, the Company reflected the provision for impairment of financial investment in RTS OJSC in the amount of difference between its book value and estimated value.

According to the requirements of Accounting Statement 19/02 "Accounting for Financial Investments", expenses on the creation of provision for impairment of financial investments are included in other expenses in "Expenses on provision for impairment of financial investments". The Company's management believes that the factors that have caused a steady decrease in the value of this financial investment existed as of the reporting date of the previous reporting period. Due to this fact, expenses relating to this provision are reflected in other expenses of the Company in "Losses of past years identified in the reporting year".

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6.4. Deferred tax assets (item 145 of the Balance Sheet)

Movement of deferred tax assets in 2006:

Balance as of 01.01.2006	296,658
Created over the reporting period on deductible temporary differences	153,202
Repaid to reduce tax payments	(40,193)
Written off in disposals	(1,227)
Balance as of 31.12.2006	408,440

6.5. Other non-current assets (item 150 of the Balance Sheet)

Indicator	As of 01.01.2006	As of 31.12.2006
Deferred expenses on purchase of software products and databases	2,453,025	2,810,938
Advances paid for purchase and creation of non-current assets	975,721	445,614
Other	---	2,737
TOTAL:	3,428,746	3,259,289

Oracle E-Business Suite software

The Company's expenses on the purchase and installation of Oracle E-Business Suite corporate management software (hereinafter "OeBS") are reflected in deferred expenses on purchase of software products and databases:

Indicator	As of 01.01.2006	As of 31.12.2006
Cost of Oracle E-Business licenses	919,517	919,517
Deployment costs	292,121	453,021
TOTAL:	1,211,638	1,372,538

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 in the range of 10 years.

Amdocs Billing Suite software

The Company's expenses on the purchase of Amdocs Billing Suite software for the purpose of introduction of a unified automated billing system are reflected in deferred expenses on purchase of software products and databases:

Indicator	As of 01.01.2006	As of 31.12.2006
Cost of Amdocs Billing Suite licenses	942,843	942,047
Deployment costs	127,427	318,446
TOTAL:	1,070,270	1,260,493

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The project for installation of the unified automated billing system based on Amdocs Billing Suite platform will be implemented over 4-5 years.

The system installation started in December 2005.

Amdocs Billing Suite software was supplied by IBM Eastern Europe/Asia LLC. To secure the settlements, the Company issued 18 promissory notes in the amount of KRUR 1, 093,751 for the benefit of this company. As of December 31, 2006, the Company's accounts payable on promissory notes issued to secure settlements were repaid in full.

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 deployed within the modules' useful life, which is established in the range of 10 years.

6.6. Inventories

Structure of raw material, consumables and other similar assets (item 211 of the Balance Sheet)

Indicator	As of 01.01.2006	As of 31.12.2006
Cable	139,399	127,938
Consumables on linear cable structures	80,102	84,546
Spare parts	70,672	57,657
Implements and tools	62,297	47,096
Appliances and devices	47,116	38,530
Office supplies and components for office equipment	26,715	35,582
Construction materials	38,522	34,060
Stationery	28,639	30,250
Fuel	11,316	12,775
Materials transferred to third parties for processing	708	423
Other	32,058	21,241
TOTAL:	537,544	490,098

Expenses on the provision for impairment of inventories are KRUR 14 in 2006 and are referred to other expenses (KRUR 585 in 2005).

Structure of deferred expenses (item 216 of the Balance Sheet)

An increase in deferred expenses in the amount of KRUR 1,073,840 is mainly caused by an increase in payables on discount on paper credits in the total amount of KRUR 1,144,727 . The Company issued promissory notes in the total amount of KRUR 6,202,351 in 2006 (see clause 6.13. hereof).

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6.7. VAT on purchased assets (item 220 of the Balance Sheet)

A considerable decrease in VAT by KRUR 817,079 as of December 31, 2006, is due to the following reasons:

- VAT on commissioned capital construction items paid by suppliers and contractors was claimed for compensation from the budget in 2006;
- Federal Law No. 119-FZ dated July 22, 2005, amended Article 21 of the Tax Code of the Russian Federation, which became effective from January 1, 2006, and defined the time of assessment of VAT base for sale (transfer) of goods (works, services) as the earlier of two dates:
 - day of shipment (transfer) of goods (works, services);
 - day of payment or partial payment for future supply of goods (works performance, services provision) or transfer of property rights.

6.8. 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 01.01.2006			
Settlements with individuals (for telecommunication services)	1,205,974	(95,319)	1,110,655
Settlements with social security authorities for reimbursement of expenses related to granting privileges to certain categories of subscribers	1,822,265	(1,822,265)	-
Settlements with state-financed organizations for telecommunication services	158,073	(18,529)	139,544
Settlements for services of for-profit organizations (other than telecommunications operators)	297,793	(45,308)	252,485
Settlements with telecommunications operators	200,939	(55,497)	145,442
Settlements with buyers and customers for non-core activities	53,037	(16,502)	36,535
Settlements for assets sold	18,423	(944)	17,479
Settlements with the government for civil defense services	14,949	(11,875)	3,074
TOTAL as of 01.01.2006	3,771,453	(2,066,239)	1,705,214
As of 31.12.2006			
Settlements with individuals (for telecommunication services)	1,030,781	(95,689)	935,092
Settlements with social security authorities for reimbursement of expenses related to granting privileges to certain categories of subscribers	608,060	(608,060)	-
Settlements with state-financed organizations for telecommunication services	143,693	(14,219)	129,474
Settlements for services of for- profit organizations (other than telecommunications operators)	278,102	(41,418)	236,684
Settlements with telecommunications operators	1,108,453	(102,128)	1,006,325
Settlements with buyers and customers for non-core activities	62,307	(27,735)	34,572
Settlements for assets sold	17,729	(917)	16,812
Settlements with the government for civil defense services	12,330	(11,173)	1,157
TOTAL as of 31.12.2006	3,261,455	(901,339)	2,360,116

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As of December 31, 2006, the growth in accounts receivable on settlements with telecommunications operators is mainly caused by an increase in receivables from Rostelecom OJSC under support and connection agreements in the amount of KRUR 743,043 , as well as by an increase in payables from other operators.

Accounts receivable in settlements with Rostelecom OJSC as of December 31, 2006, arose from changes in the provision of long-distance domestic and international communication services. The Company does not provide such services from January 1, 2006, and in accordance with Support Agreement No. 6479, dated January 01, 2006, it collects payments from customers for the services provided by Rostelecom OJSC. Accounts receivable from Rostelecom OJSC are deemed current receivables.

Receivables from social security authorities for reimbursement of expenses related to granting privileges to certain categories of subscribers account for 18.64% of the total amount of trade accounts receivable as of December 31, 2006 (48.30 % as of January 1, 2006). These accounts receivable emerged before January 2005, when Article 47 of Federal Law No. 126-FZ, dated July 7, 2003, "On Telecommunications" was enforced. This Article changed the procedure for granting privileges to individuals in the provision of services of telecommunication organizations. Before January 2005, telecommunication services users eligible for privileges paid 50% of their cost by themselves, and 50% was subject to compensation from the state budget.

In 2005, the budgets did not provide for financing the remaining debts of the social security authorities for reimbursement of expenses related to granting privileges to certain categories of subscribers in the previous periods.

In 2006, as a result of claims and actions, the arbitration courts recovered KRUR 1,564,739 . from the federal budget to cover the Company's accounts receivable resulting from services provided earlier to privileged categories of citizens. Of that amount, KRUR 1,022,318 was credited to the settlement accounts.

As of December 31, 2006:

- writs of execution in the amount of KRUR 91,561 were issued to the Company and execution thereon was in progress;

- claims in the amount KRUR 261,032 were pending with arbitration courts of various instances.

The above accounts receivable from the social security authorities are doubtful, since they were not paid in accordance with contractual terms and are not secured by relevant guarantees. The Company will continue efforts to recover funds from the federal budget to compensate for this debt. . However, taking into account the difficulties related to the recovery of such debts for the previous periods, 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, and considering possible recovery of debts, created a provision for doubtful debts in the amount of KRUR 608,060 , which accounts for 100 % of the total amount of debt of the social security authorities as of December 31, 2006

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6.9. Other accounts receivable to be paid within 12 months after the reporting date (item 243 of the Balance Sheet)

Indicator	As of 01.01.2006	As of 31.12.2006
Settlements on taxes and duties	104,566	495,434
Settlements on social insurance and security	14,836	11,685
Settlements with personnel on other operations	6,700	7,292
Settlements with advance holders	1,912	2,568
Settlements with personnel on salaries	1,021	173
Settlements with different debtors:	239,070	149,493
- settlements with attorneys (factors, agents)	133,970	78,333
- shortages and losses from inventories damage	9,746	9,259
- settlements on claims	9,582	14,743
- settlements on property and personal insurance	3,053	11,611
- settlements on due income	1,660	5,776
- settlements with principals (commitments, principals)	1,537	986
- settlements on transactions with securities	979	-
- settlements with trade union	123	103
- other	140,010	103,948
Provision for doubtful debts on other accounts receivable	(61,590)	(75,266)
TOTAL:	368,105	666,645

Increase in the amount of KRUR 298,540 is mainly related to an increase in profit tax receivables in the amount of KRUR 390,868 and a decrease in payables to attorneys, factors, and agents by KRUR 55,637 and other payables by KRUR 36,062

Increase in accounts receivable on profit tax is caused by the following reasons:

- receivables in the amount of KRUR 222,760 are based on the adjusted profit tax return for 2003 submitted to the Tax Authority on December 4, 2006. The basic reason for filing the adjusted return was the adjustment of expenses related to production and sales in 2003 for tax accounting purposes;
- an increase in advance payments in the 4th quarter of 2006 (KRUR 408,314) by KRUR 342,605 compared to the 4th quarter of 2005 (KRUR 65,709). The amount of advance payments for the 4th quarter is calculated based on the amount of profit tax for 9 months of the reporting year. The amount of evaluated profit tax for 9 months 2005 is KRUR 395,425 , and for 9 months 2006 – KRUR 1,016,972

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6.10. Charter capital (item 410 of the Balance Sheet)

Charter capital makes KRUR 6,311,999 and is comprised of 1,578,006,833 ordinary and 525,992,822 preference shares with the par value of RUR 3.00 each.

Shareholders	Ordinary shares		Preference shares	
	Number (pieces)	Par value (RUR)	Number (pieces)	Par value (RUR)
Companies, total:	1,484,694,232	4,454,082,696	451,733,207	1,355,199,621
including:				
Svyazinvest OJSC	799,867,813	2,399,603,439	---	---
subsidiary and associated companies, total	262,685	788,055	---	---
including:				
- TK Rinfotels OJSC	22,909	68,727	---	---
- ATS CJSC	239,776	719,328	---	---
registered entities holding more than 1 % of the authorized capital, total	622,146,258	1,866,438,774	420,782,998	1,262,348,994
including:				
- Depositary and Clearing Company CJSC (nominee)	130,073,190	390,219,570	102,643,242	307,929,726
- U B S NOMINEES CJSC (nominee)	67,930,098	203,790,294	100,053,260	300,159,780
- KB CITIBANK CJSC (nominee)	102,956,185	308,868,555	163,265,461	489,796,383
- Russian Fund of Federal Property	151,356,274	454,068,822	---	---
- ING Bank (Eurasia) CJSC (nominee)	98,771,540	296,314,620	20,408,142	61,224,426
- National Depositary Center NP	71,058,971	213,176,913	34,412,893	103,238,679
other legal bodies, total	62,417,476	187,252,428	30,950,209	92,850,627
Individuals, total:	93,312,601	279,937,803	74,259,615	222,778,845
including:				
- Company's employees	34,594,692	103,784,076	31,292,097	93,876,291
- other	58,717,909	176,153,727	42,967,518	128,902,554
TOTAL:	1,578,006,833	4,734,020,499	525,992,822	1,577,978,466

As of December 31, 2006, authorized capital of the Company is paid up in full.

Holders of preference shares type A have the right to participate in General Shareholder Meeting with the right to vote on reorganization and liquidation issues , as well as making amendment in the Company's Articles of Association. Holders of preference shares type A have the right to annual fixed dividends, except for the cases provided for by the Articles of Association. Total amount paid as dividend on each preference share type A is equal to 10 percent of the Company's net profit based on the performance of the last financial year divided by the number of shares which account for 25 percent of the Company's authorized capital. If the amount of dividends paid by the Company on each ordinary share for a certain year exceeds the amount payable as dividends on each preference share type A, the amount of dividends payable on the latter must be increased up to the amount of dividends payable on ordinary shares. These payments are made additionally on the day of dividends disbursement on ordinary shares.

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6.11. Additional paid-in capital (item 420 of the Balance Sheet)

The Company reported transfer equity in the amount of KRUR 575,876 from additional paid-in capital to retained earnings in section III “Capital and reserves” of the Balance Sheet as of all reporting dates of the current and previous reporting periods presented in the financial statements for 2006.

In the previous reporting periods (in 1999-2000), in accordance with the requirements of the Accounting Statement 6/97 “Accounting for Fixed Assets” and the Methodological Guidelines on Accounting for Fixed Assets approved by Order No. 33n of the Ministry of Finance of the Russian Federation dated July 20, 1998, , the Company reported an increase in additional paid-in capital on account of retained earnings in the amount of an increase in the value of fixed assets upon completion of capital work (additional construction, additional equipment, and reconstruction).

These requirements ceased to be effective starting from the financial statements for 2001. As the accounting regulations that have been in force since 2001 do not provide for recognition of such additional evaluation of fixed assets in the additional paid-in capital, the amount of such additional evaluation was subject to reclassification from additional paid-in capital to retained earnings in the financial statements for 2001. In accordance with the acting regulations on accounting, the above change in additional paid-in capital and retained earnings is to be reflected in the financial statements for 2006 without adjustments in the accounting records and financial statements for the past reporting periods.

However, the Company’s management believes that the Company’s approach to changing these financial indicators also for the previous reporting periods will ensure a more reliable and complete presentation of the Company’s financial position in the financial statements for 2006 and comparability of additional paid-in capital and retained earnings for the reporting and previous periods.

6.12. Reserve capital (item 430 of the Balance Sheet)

In accordance with the resolution of the General Shareholder Meeting, dated June 30, 2006 (Minutes No. 14), in 2006 the Company increased the reserve capital in the amount of KRUR 33,425 from the net profit of 2005. As of December 31, 2006, the reserve capital was KRUR 64,985 (31,560 in 2005).

According to the Articles of Association of the Company, the reserve fund is created in the amount of 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.

6.13. Treasury stock (item 440 of the Balance Sheet)

As of December 31, 2005, and December 31, 2006, the Company had no treasury stock.

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6.14. Dividends

In 2006, in accordance with the resolution of the General Shareholder Meeting, dividends for the year ended December 31, 2005, were declared in the amount of RUR 0.0674191 per ordinary share and RUR 0.1270937 per preference share. The amount of dividends payable is KRUR 173,238

As of December 31, 2006, the amount of paid dividends for 2005 was KRUR 166,967 , dividends in the amount of KRUR 6,271 were unpaid due to the lack of correct bank and postal details of shareholders or shareholder's failure to appear.

Share description	Number of shares (pieces)	Dividend per share (RUR)	Total amount of dividends (RUR)
Preference shares, type A	525,992,822	0,1270937	66,850,374
Ordinary shares	1,578,006,833	0,0674191	106,387,798
TOTAL:	2,103,999,655		173,238,172

Dividends are not reflected in the attached financial statements. They will be reflected in the financial statements for 2007 after their approval at the annual General Shareholder Meeting of the Company in June 2007.

6.15. Loans and borrowings (lines 510 and 610 of the Balance Sheet)

Indicator	Long-term		Short-term	
	01.01.2006	31.12.2006	01.01.2006	31.12.2006
Bank loans, total:	3,992,576	3,028,077	3,931,458	47,102
including:				
Deutsche Bank AG	-	3,028,077	-	43,493
Srednerusskiy Bank SB RF	2,847,000	-	1,746,445	-
AKB Promsvyazbank CJSC	650,000	-	-	-
Vneshtorgbank CJSC	335,211	-	1,744,929	3,609
Russian Development Bank	142,000	-	-	-
Vnesheconombank	18,365	-	439,489	-
Main Financial Department of Vladimir Region	-	-	595	-
The Ministry of Finance of the Russian Federation	-	328,608	-	82,197
Borrowings from individuals	101,833	103,919	9	1,901
Bonds issued	20,089	8,634,572	7,989,200	373,113
Promissory notes issued, total:	2,519,000	5,317,795	2,416,175	3,403,557
including:				
Vneshtorgbank CJSC	-	-	763,175	-
North-West Investment Center	1,048,000	-	1,653,000	1,048,000
Region Broker Company LLC	1,471,000	-	-	1,471,000
SV Capital LLC	-	1,317,062	-	884,557
AKB Promsvyazbank CJSC	-	4,000,733	-	-
TOTAL:	6,633,498	17,412,971	14,336,842	3,907,870

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 purchase of telecommunication equipment from various foreign vendors.

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Vneshtorgbank acted as an agent that provided credit to the Company on behalf of the Government of the Russian Federation. Currency of the agreement was Euro. In July 2005, the Ministry of Finance of the Russian Federation brought an action against the Company with a claim to repay overdue debt immediately. The debt as of the date of action was EUR 13,259,270.20. Subsequently, the amount of action was increased up to EUR 18,443,733.43.

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 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. Payment (repayment) of the restructured debt will be made by equal installments on an annual basis until January 1, 2012.

In accordance with the Accounting Statement 7/1998 “Events after the Balance Sheet Date”, the financial statements for 2006 reflect:

- repayment of the restructured debt in the amount of KRUR 82,063 (EUR 2,370,065.96);
- write-off of late payment interest in the amount of KRUR 175,386 (EUR 5,068,169.86).

Income from write-off of late payment interest in the amount of KRUR 175,386 (EUR 5,068,169.86) is reported in other income of the Company for 2006 as income from write-off of accounts payable.

As of December 31, 2006, the total amount of the restructured debt to the Ministry of Finance of the Russian Federation was KRUR 410,805 (EUR 11,838,653.29), including the current portion and interest in the amount of KRUR 82,197 (EUR 2,369,028.05).

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 09, 2007, with the Ministry of Finance of the Russian Federation for the total pledge value of KRUR 814,610. The pledge agreement expires upon performance of obligations under the amicable agreement.

Loan with further issue of credit notes

On October 31, 2006, the Company raised a loan in the amount of USD 115 mln (KRUR 3,028,077). 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 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.

Resources from the bonds issue are allocated to refinance debt liabilities of the Company.

This loan is not secured.

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Bonds

In June 2006, FSFR of Russia registered an issue of 3,000,000 interest-bearing documentary non-convertible bonds of the Company, series 05, with nominal value of RUR 1,000 per each. Bonds have 10 coupons. Coupon period makes 182 days.

Interest rate on the first four coupons is fixed at 8.09% per annum; the other coupons are defined by the issuer in accordance with the issue documents. The date of bonds series 05 placement 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 issue of 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 February 2006, the Company performed its obligation on the third coupon of bonds series 04. The total amount of coupon yield charged was KRUR 389,027 The amount of coupon yield charged per bond was RUR 69.19. Payment is made in the amount of KRUR 388,944 taking into account the withholding of income tax. Obligation is performed in time specified by the Resolution on the Issue and Prospectus.

In August 2006, the Company performed its obligation on the fourth coupon of bonds series 04. The total amount of coupon yield charged was KRUR 389,027 The amount of coupon yield charged per bond made RUR 69.19. Payment is made in the amount of KRUR 388,944 taking into account the withholding of income tax. Obligation is performed in time specified by the Resolution on the Issue and Prospectus.

In November 2006, the offer on the bonded loan series 04 in the amount of KRUR 5,622,595 became due. Bonds were called for redemption to the Company and due to this fact this amount was reclassified as long-term liabilities.

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

Paper credits

In 2006, the Company issued promissory notes in the total amount of KRUR 6 202 351 Discount (total) is KRUR 1,577,281 Maturity dates fall due in September 2009, 2010, 2011; on a monthly basis starting from March 2007 up to September 2011.

Company	Amount of paper credit	Date of placement	Maturity	Discount in % per annum (effective rate)
Long-term				

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AKB Promsvyazbank CJSC	4,000,733	07.09.2006	07.09.2009 07.09.2010 07.09.2011	9.90 10.6 11.10
SV Capital Finance LLC	1,317,062	18.12.2006	monthly from 24.01.2008 up to 23.09.2011	9.91 – 10.56
Short-term				
SV Capital Finance LLC	884,557	18.12.2006	monthly from 23.03.2007 up to 24.12.2007	9.76 – 9.98

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

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

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

The total principal amount under the agreement is KRUR 2,269,969 and corresponds to the amount of debt of CenterTelecom OJSC to RTK-Leasing OJSC on lease payments as of September 30, 2006, repayable between March 01, 2007, and September 30, 2011. The current value of the promissory notes of RTK-Leasing OJSC was measured on the basis of market rate and was KRUR 1,925,070

Agreement of promissory notes issue provides for issue of promissory notes of CenterTelecom OJSC. As a result of issue of own promissory notes, CenterTelecom OJSC received an amount sufficient to purchase promissory notes of RTK-Leasing OJSC, namely KRUR 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 was KRUR 2,201,618

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

The deals do not directly relate to the lease contracts, but they allow to reduce 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.

Long-term loans and borrowings repayment schedule as of December 31, 2006:

Indicator	Loans and borrowings	Bonded loans	Paper credits	Total
in 2008	4,054	708	811,822	816,584
in 2009	6,250	5,623,345	1,644,424	7,274,019

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in 2010	3,044,184	900,000	1,843,454	5,787,638
in 2011	13,862	2,108,726	1,018,095	3,140,683
after 2011	392,254,	1,793	-	394,047
TOTAL:	3,460,604	8,634,572	5,317,795	17,412,971

The Company's expenses related to receipt and use of loans and borrowings are included in:

Indicator	2006	2005
other expenses	2,340,484	2,384,857
value of investment assets	65,242	213,623
Total:	2,405,726	2,598,480

6.16. Deferred tax liabilities (item 515 of the Balance Sheet)

The movement of deferred tax liabilities in 2006 was as follows:

Balance as of 01.01.2006	741,179
Created over the reporting period at taxable temporary differences	176,253
Stated at adjusted taxable difference for the previous period	222,766
Paid on increase in tax payments	(5,103)
Written off after items disposal	(10,502)
Balance as of 31.12.2006	1,124,593

6.17. Other long-term liabilities (item 520 of the Balance Sheet)

Indicator	As of 01.01.2006	As of 31.12. 2006
Settlements on equipment leasing	2,440,997	1,401,553
Settlements with suppliers and contractors	67,615	39,203
Long-term portion of tax liabilities	35,123	5,029
Other long-term debts	4,239	3,882
TOTAL:	2,547,974	1,449,667

Long-term accounts payable have decreased by KRUR 1,098,307 against the previous year, which is mainly due-to the transfer of the long-term portion of lease payables to short-term debt.

As of December 31, 2006, accounts payable to the budget on tax fines and penalties restructured by the Company are KRUR 5,029

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6.18. Accounts payable

Trade accounts payable (item 621 of the Balance Sheet)

Indicator	As of 01.01.2006	As of 31.12.2006
Settlements for equipment to be installed, certain fixed assets items and capital construction	516,466	1,606,923
Settlements on equipment leasing	1,374,285	1,099,578
Settlements with operators on traffic transfer	7,590	434,156
Settlements on maintenance and repair services	56,467	77,543
Settlements on operating materials	20,664	55,067
Settlements with Russian operators on Internet access	27,300	38,452
Settlements on materials for capital construction	9,351	35,374
Settlements for communal services and electric power	24,527	25,162
Settlements with Russian operators on other services	15,050	16,203
Settlements with lessors on property leased	13,218	13,905
Settlements with Rostelecom OJSC	190,532	13,786
Other settlements	484,496	160,495
TOTAL:	2,739,946	3,576,644

Accounts payable increased by KRUR 836,698 against 2005, mainly on account of an increase in debts to telecoms operators for traffic transfer. This is related to the conclusion of agreements on termination of zonal call to mobile operators' networks in 2006 (Vympel-Communications OJSC, Mobile TeleSystems OJSC, Mobicom-Center CJSC, Recom OJSC, etc.).

Debts on settlements for equipment to be installed have also increased. According to the terms and conditions of the agreements made, the equipment was delivered in the 4th quarter of 2006, and payment is scheduled for 2007.

A decrease in debts on other settlements is related to the repayment of promissory notes issued to IBM Eastern Europe/Asia LLC to secure settlements for Amdocs Billing Suite software in the total amount of KRUR 375,022

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The major lenders (over RUR 10 mln) are specified below.

No.	Lender	Debt as of 31.12.2006
1.	RTK-Leasing OJSC	1,091,997
2.	General Deitacomm LLC	254,202
3.	Vympelcom-Communications OJSC	187,495
4.	TekhnoBars-Telecommunications LLC	131,183
5.	MPO Klassika LLC	120,304
6.	Paladin Invent LLC	101,989
7.	Verisel Projects CJSC	92,780
8.	Telecom MTK CJSC	80,504
9.	MTS OJSC	75,051
10.	ISG CJSC	74,219
11.	Tekhnoserv AS LLC	70,105
12.	IskraUralTel CJSC	66,887
13.	Country Telecommunication Company CJSC	65,165
14.	Telecom Spetskomplektresurs	58,644
15.	SoyuzTelefonsroi OJSC	56,872
16.	ALS and TEC Company LLC	51,246
17.	Svyazstroj-4 OJSC	47,847
18.	Mobicom-Center CJSC	39,816
19.	Compulink USP LLC	37,176
20.	Siemens AG	35,390
21.	Svyaz-Bezopasnost FGUP	29,774
22.	Votek-Mobile CJSC	29,097
23.	Intracom	27,903
24.	Connect Plus LLC	26,025
25.	CenterTelecomService CJSC	24,848
26.	Iskratel CJSC	23,003
27.	Giprosvyaz OJSC	22,223
28.	Mashpriborintorg FGUP	22,205
29.	ItalTel CJSC	22,629
30.	Tekhnoserv A/S LLC	20,422
31.	Yaroslavl GSM CJSC	19,276
32.	Tel MTK CJSC	19,102
33.	Recom OJSC	17,171
34.	Mastertel-Sever CJSC	16,102
35.	Post of Russia FGUP	14,765
36.	Mediatel CJSC	13,294
37.	Tekhntrade KP LLC	12,964
38.	Smarts CJSC	11,737
39.	Summa Tekhnologiy LLC	11,465
40.	TransTelecom Company CJSC	11,217
41.	Mos-TKS Telecomstroj CJSC	10,713
	Other	431,837
	TOTAL:	3,576,644

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Settlements with the budget on taxes and duties (item 625 of the Balance Sheet)

Indicator	As of 01.01.2006	As of 31.12.2006
Settlements on property tax	159,040	160,293
Settlements on value added tax	312,550	53,278
Settlements on profit tax	48,670	14,026
Settlements on transport tax	2,161	2,734
Settlements on income tax	765	785
Settlements on land tax	525	7,648
Settlements on unified imputed income tax	183	141
Other taxes and duties	2,246	519
TOTAL:	526,140	239,424

Reduction of tax liabilities by KRUR 286,716 is explained by a decrease in liabilities on value added tax.

Reduction of VAT liabilities for December 2006 against December 2005 is caused by an increase in tax deductions in December 2006.

The major reasons for an increase in tax deduction for December 2006 include:

- increase in amount of services provided by contractors on capital construction;
- increase in amount of purchased equipment included in construction cost estimate;
- increase in amount of fixed assets purchased;
- increase in amount of expenses for purchase of goods, works, services.

Other accounts payable (item 626 of the Balance Sheet)

Indicator	As of 01.01.2006	As of 31.12.2006
Settlements with advance holders	234	231
Settlements with personnel on other operations	93	387
Settlements with different lenders :	935,730	696,701
-settlements on the agency agreement with Rostelecom OJSC	-	401,388
-settlements on provision for universal service	156,793	139,651
-settlements on deferred value added tax	564,212	119,081
-settlements on property and personal insurance	1,823	2,027
-settlements on deposited amounts	1,295	1,483
-settlements on claims	13	51
-settlements on penalty interest to Vnesheconombank	167,144	-
-other settlements	44,450	33,020
TOTAL:	936,057	697,319

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The amount of accounts payable reduced by KRUR 238,738 against 2005, which is related to a decrease in deferred value added tax liabilities.

Federal Law No. 119-FZ dated July 22, 2005, , introduced amendments to Article 21 of the Tax Code of the Russian Federation, effective from January 1, 2006, that defined the time of determination of value added tax base in case of sale (transfer) of goods (works, services) as the earlier of two dates:

- the day of shipment (transfer) of goods (works, services);
- the day of payment or partial payment for future supply of goods (performance of works, provision of services), or transfer of property rights.

In 2006, in accordance with the Law “On Telecommunications” and in accordance with the procedure provided for by Decree No. 243 of the Government of the Russian Federation dated April 21, 2005, the Company made allocations to the provision for universal services that are mandatory for telecoms operators. As of December 31, 2006, the debt was KRUR 139,651 (KRUR 156 793 in 2005).

The amount of allocations to the provision for universal service was KRUR 275,785 in 2006 (KRUR 47 376 in 2005).

In 2006, the Company became an agent of Rostelecom OJSC to provide subscribers with the services of international and domestic long-distance communication. Agency agreement No. 6595/06-DO, dated January 01, 2006, was made with Rostelecom OJSC. As of December 31, 2006, the liabilities under this agreement were KRUR 401,388 , and were deemed current.

Moreover, other accounts payable were reduced through write-off of late payment interest under the amicable agreement with the Ministry of Finance of the Russian Federation (VEB) in the amount of KRUR 175,386

The amount of overdue debt in the total amount of accounts payable reflected in line 620 of the Balance Sheet makes KRUR 446,691 as of the end of the reporting period.

6.19. Deferred income (item 640 of the Balance Sheet)

Indicator	As of 01.01.2006	As of 31.12.2006
Purpose finance budgetary funds	3,838	1,069
Purpose finance funds (other than budgetary funds)	3,555	3,180
Deferred income, total	492,045	462,402
including		
- gratuitous proceeds	321,351	302,730
- other deferred income	170,694	159,672
TOTAL:	499,438	466,651

6.20. Provisions for future expenses (item 650 of the Balance Sheet)

Indicator	As of 01.01.2006	As of 31.12.2006
Provision for unused vacations	301,509	337,774
Other types of provisions	150,566	343,156

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TOTAL:	452,075	680,930
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Increase in the debt on the provision for future expenses in the amount of KRUR 228,855 was mainly caused by an increase in the provision for bonuses for fulfillment of additional assignment based on the results of 2006 in the amount of KRUR 161,448 compared to the similar provision for 2005, as well as by creation of the provision for unused vacations in the amount of KRUR 36,264

6.21. Other short-term liabilities (item 660 of the Balance Sheet)

In December 2006, the Company created a provision for severance pay to the employees, who are notified of the forthcoming staff reduction as of December 31, 2006, (in the procedure specified by Article 180 of the Labor Code of the Russian Federation). Expenses on the creation of the provision in the amount of KRUR 39,993 were posted to operating expenses.

Moreover, in connection with the amicable agreement with the Ministry of Finance of the Russian Federation effective from December 27, 2006 (see clause 6.15. hereof), the Company recorded a provision for contingent liabilities on payment of fees for the Company's representation in the arbitration court in the amount of KRUR 86,577 in accordance with the requirements of the Accounting Statement 8/01 "Contingencies".

6.22. Leased fixed assets (item 901 of the Balance Sheet)

Increase in the value of fixed assets leased in the amount of KRUR 128,137 against 2005 is related to the termination of operating sublease agreements made earlier and entering into release agreements to financial lease contracts on April 28, 2006, as well as financial lease contracts with VTB-Leasing OJSC in the amount of KRUR 1,004,893 and Petroleasing-Management CJSC in the amount of KRUR 879,900

The total amount of payments under the agreements made will make KRUR 1,884,793 within their terms (36 months, 33 months).

6.23. Assets received as collateral for liabilities and payments (item 905 of the Balance Sheet)

Third party guarantees in the amount of KRUR 8,998,488 are recorded in line 905 of the Balance Sheet, including security for bonded loans (series 04, 05) in the amount of KRUR 8,985,886

6.24. Assets pledged as collateral for liabilities and payments (line 906 of the Balance Sheet)

Indicator	As of 01.01.2006	As of 31.12.2006
Promissory notes	7,038,635	8,721,351
Third party guarantees	2,812,210	1,869,773
Property pledged	7,976,087	143,866
Other	54,997	27,910
TOTAL:	17,881,929	10,762,900

Reduction in the amount of KRUR 7,119,029 against 2005 was mainly due to a decrease in the value of pledged property. This was caused by early repayment of debts on the loans secured by the Company's property, as well as new borrowings without counter-security.

The following pledge agreements are closed early :

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- Sberbank of the Russian Federation – Agreements Nos. 346-1, 346-2, 346-3, 346-4, 346-5, 358, 359, 368 , 369, 585, 380 in the amount of KRUR 3, 791,748 ;
- Vneshtorgbank – Agreements Nos. 1194, 1020, 1265, 1266 in the amount of KRUR 201,995 ;
- Guta-Bank - Agreement No. 565 in the amount of KRUR 42,028 ;
- Russian Development Bank - Agreement No. 01-DZ-547 in the amount of KRUR 143,521 ;
- Promsvyazbank - Agreements Nos. 6171, 6413 in the amount of KRUR 1,775,138 ;
- AKB Bank of Moscow – Agreement No. 29-261/15/2031-05-ZDI in the amount of KRUR 1,803,366

Moreover, promissory notes in the amount of KRUR 4,519,635 have been repaid.

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7. Notes to significant Profit and Loss items

7.1. Revenue

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

Indicator	2006	2005
Long-distance domestic and international telephone communication	-	6,959,805
City and rural telephone communication	14,413,488	13,393,314
Connection and traffic transfer services	4,990,893	1,808,973
Intrazone telephone communication	3,867,162	2,377,772
Documentary electric communication	2,201,931	1,627,653
Services in support of long-distance and international communication services by operators of long-haul communication	1,397,712	-
Wire broadcasting	670,234	663,300
Mobile radiotelephony (cellular communication)	245,865	248,601
Mobile radiotelephony, radio broadcasting, TV, satellite communication	72,230	69,657
Other communication services (core activities)	144,399	86,780
Income from other sales (non-core activities)	391,343	357,755
TOTAL:	28,395,257	27,593,610

Income grew by KRUR 801,647 against 2005, mainly on the types of services listed below.

City and rural telephone communications

Income grew by KRUR 1,020,174 against 2005 due to indexation of tariffs for local communication on “Local telephone connection” service at the end of 2005.

Documentary telecommunications

Income grew by KRUR 574,278 against 2005 mainly due to an increase in telematic services – dedicated Internet access.

Long-distance domestic and international telephone communication

In accordance with the newly enforced regulatory legal acts, the regulations on provision of intrazone, long-distance domestic and international communication services by operators to users have changed since 2006.

In 2006, the Company stopped providing services of long-distance domestic and international communication, since in accordance with the new regulations these services are to be provided in the territory of the Russian Federation only by operators holding licenses for long-distance domestic and international telephone communication services.

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Intrazone telephone communication

Income growth made KRUR 1,489,390 against 2005.

Services of intrazone telephone communication include the provision to users of:

- telephone connections between the users connected to the fixed telephone communication network within the territory of the subject of the Russian Federation;
- telephone connections between the users connected to the fixed telephone communication network and the users connected to mobile communication 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 subject of the Russian Federation.

Order No. 729-s/9 of the Federal Tariff Service of Russia dated December 20, 2005, has established the Company's marginal tariffs on intrazone services provided to subscribers of fixed telecom network effective from January 1, 2006.

In connection with enactment of amendments to the Federal Law "On Telecommunications" from July 1, 2006, that cancel payment for incoming calls to any telephone, the scheme of interaction between fixed-line operators and mobile radiotelephony operators, as well as scheme of mutual settlements in provision of telecom services have changed. Connections from subscribers of fixed telecom network to subscribers of mobile radiotelephony network are billed as intrazone telephone connections. Marginal tariffs on intrazone telephone connections from subscribers of fixed telecom network to subscribers of mobile radiotelephony network are approved by Order No. 123-s/1 of the Federal Tariff Service of Russia dated June 19, 2006, in the amount of RUR 0.75 (minimum tariff) to RUR 1.50 (maximum tariff) per minute of connection. The Company has established tariffs on these intrazone telephone connections at the maximum marginal level.

Before July 1, 2006, these services of intrazone telephone communication were billed as local telephone connections – at RUR 0.17 per minute in case of time-based system of payment for local telephone connections, or were not billed and were included in subscription fee in case of subscription system of payment for local telephone connections.

In 2005, income from intrazone telephone connection for users was not reflected as a separate item, since the Company had tariffs assigned for long-distance telephone communication services without specification of the amount of tariff on intrazone telecommunication. Thus, the data about income for 2006 and 2005 on intrazone long-distance and international communication cannot be comparable in virtue of new regulatory acts enforced in 2006 that regulate the provision of such services, as well as due to separation of licenses obtained between the Company and operators of long-distance domestic and international communication.

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Services in support of long-distance domestic and international communication services provided by long-distance domestic and international communication operators

In 2006, the Company became an agent of operators of long-distance domestic and international telephone communication on 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 communication in accordance with these agreements. Such services, in particular, include:

- processing of a subscriber's order when providing it with access to international domestic and long-distance communication services in accordance with immediate and booking system of servicing;
- billing processing of long-distance domestic and international communication services;
- preparation, generation and storage of necessary documents and reporting forms;
- activities on claims, actions and execution;
- 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 communication; activities on claims and actions; documents delivery.

Connection and traffic transfer services

In 2006, the Company provided services on connection and traffic transfer to telecoms operators in accordance with Decree No. 161 of the Government of the Russian Federation dated March 28, 2005, "Approval of Regulations on Connection of Telecommunication Networks and Interaction Between Them".

In accordance with Order No. 39 of the Federal Service for Surveillance in Communication, the Company was included in the register of operators that occupy an important position in the public telecommunications network, therefore the Company's prices for connection and traffic transfer services are subject to state regulation.

As of the beginning of 2006, these prices were not approved. As a result, the Federal Service for Surveillance in Communication allowed the Company to fix prices by itself. Prices for connection services and traffic transfer services were approved by the Company's Order No. 285 dated June 25, 2006, and have been applied when reentering into agreements on connection and interaction with telecoms operators since July 1, 2006.

Connection services

Order No. 51 of the Federal Service for Surveillance in Communication dated June 19, 2006, established marginal prices for connection services for the Company from July 1, 2006. These prices include marginal prices for arrangement of connection nodes and marginal prices for connection node servicing. The Company established prices for connection services at the maximum marginal level.

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The Company's income from connection services were KRUR 268,481 in 2006 (KRUR 58,403 in 2005), including:

- KRUR 26,783 (58,403 in 2005) from payments for arrangement of connection node,
- KRUR 241,698 , (KRUR 0 in 2005) from payments for connection node servicing.

In accordance with Decree No. 1331 dated October 17, 1997, "Approval of Basic Provisions for Mutual Settlements Between Operators of Telecommunication Networks that Form Public Telecommunication Network for Resources Provided and Participation in Transmission of Such Networks Load", in 2005, the Company received income from providing access to the public telecommunication network. These payments in 2005 are similar to payments for arrangement of connection node in 2006.

In 2005, income from monthly payments for connection node servicing as a part of income from providing access to the public telecommunication network was not provided for by the effective laws.

Traffic transfer services

Traffic transfer services collectively mean:

- services on initiation of local and zonal call from the Company's network,
- services on initiation of local and zonal call from the connected operator's network;
- services on termination of local and zonal call to the Company's network,
- services on termination of local and zonal call to the connected operator's network;
- services on local and zonal call transit.

Order No. 51 of the Federal Service for Surveillance in Communication dated June 19, 2006, established marginal prices for traffic transfer services within the public telecommunication network for the Company from July 1, 2006. The Company established prices for call initiation and termination services at the maximum marginal level, except for the prices for local initiation and termination at the Company's node, which are RUR 0.12 (the marginal price is RUR 0.19).

The Federal Tariff Service of Russia approved compensatory allowance in the amount of RUR 0.50 per minute in December 2006. This allowance is to be applied to the cost of local and zonal call initiation for the purpose of long-distance domestic and international telephone connections. This allowance has been applied since January 1, 2006, and enables operators to cover losses arising from providing regulated services of local telephone communications.

Decree No. 625 of the Government of the Russian Federation dated October 19, 2005, "On State Regulation of Prices for Connection and Traffic Transfer Services Provided by Operators that Occupy an Important Position in the Public Telecommunication Network" established a compensatory allowance for operators on top of the price for initiation of local and zonal call aiming at intrazone, long-distance domestic and international telephone connection for the period until January 01, 2008. Order No. 729-s/3 of the Federal Tariff Service of Russia dated December 20, 2005, approved the compensatory allowance for the Company on top of the price for local and zonal call initiation in the amount of RUR 0.62 per minute.

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In 2006, the Company's income from services on traffic transfer is generated in the amount of:

- payments of Rostelecom OJSC:
 - for services on initiation of zonal call from the Company's network (payments include compensatory allowance),
 - for services on initiation of zonal call from the connected operators' network,
 - for services on termination of zonal call to the Company's network and connected operators' networks;
- payments of operators connected to the Company's network at local and zonal levels for the services on call termination;
- payments of operators of data transmission network for call initiation services.

In 2005, the structure of the Company's income from services on traffic transfer was different. The Company received income from traffic transfer through its intrazone network (termination from the network of Rostelecom OJSC) and for provision of technical devices and structures from operators, networks of which are connected to the Company's network at local and zonal levels.

The Company's income from traffic transfer services made KRUR 4,722,411 in 2006, of that KRUR 1,232,287 was on account of compensatory allowance (KRUR 1,750,570 in 2005, no compensatory allowance was applied).

From February 01, 2007, in accordance with Order No. 261-s/2 of the Federal Tariff Service of Russia, dated November 14, 2006, the amount of compensatory allowance is reduced to RUR 0.50 per minute, which will result in a decrease in income from call initiation services in 2007.

Comparative data on income for 2005

In the financial statements for 2005, the Company showed income from connection services, traffic transfer services, mobile cellular communication services provided to telecoms operators, as well as from provision of channels for use, including cable, data transmission, Internet and other services on a separate item "Income from telecoms operators".

In 2006, the Company changed the format for presentation of information about income received and shows income from connection and traffic transfer services on a separate item. Other income received from telecoms operators is included in the relevant revenue items.

In order to ensure comparability of the reporting data, income from telecoms operators in 2005 is included in the comparative data for 2005 as follows:

Total income from telecoms operators in 2005	2,375,872
broken down by items:	
- connection and traffic transfer services	1,808,973
- urban and rural telephone communication	342,351
- intrazone telephone communication	111,429
- documentary electric communication	79,608
- other communication services (core activities)	30,014

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- mobile radiotelephony (cellular communication) 3,497

The Company showed income from Internet, IP-telephony, ISDN and intelligent network services on a separate item “New communication services” in the financial statements for 2005. In 2006, income from Internet and IP-telephony services is shown in income from documentary electric communication; income from intelligent network services – in income from other communication services; income from ISDN services is distributed over various services provided with the use of ISDN technology.

In order to ensure comparability of the reporting data, income from new services in 2005 is included in the comparative data for 2005 as follows:

Total income from new services for 2005	1,296,258
broken down by items:	
- documentary electric communication	1,232,196
- urban and rural telephone communication	60,229
- other communication services (core activities)	3,833

Non-cash settlements

In 2006, a part of the Company’s revenues from providing of services, performance of works, sale of goods, products, was received under conditions of the agreements that provide for non-cash settlements (payment), mainly through set-off of mutual claims:

Indicator	2006	2005
Total number of organizations participating in non-cash settlements	2,019	2,510
Revenues on such operations – total including:	5,094,867	1,352,094
Rostelecom OJSC	4,903,356	1,177,181
Rostelegraf CJSC	33,430	41,050
FGUP Post of Russia	32,315	24,942
Mobile TeleSystems OJSC	13,781	-
Vypel-Communications OJSC	12,396	502
Open Technologies OJSC	11,867	-
Recom OJSC	9,685	2,702
Other companies	78,037	105,717
Revenues on agreements providing for non-cash payments, total in % of total revenues	17.94	4.90
Revenues on agreements with affiliates providing for non-cash payments, total in % of total revenues for the reporting year	17.29	4.30

Costs of the services provided, works performed, goods sold were measured by the Company on a common arm’s length basis.

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7.2. Costs

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

Indicator	2006	2005
Salary expenses	7,847,146	7,297,210
Social insurance charges	1,828,942	1,731,863
Fixed assets depreciation	3,767,380	3,363,844
Material costs, total	1,949,049	1,916,603
including		
materials, fuel and spare parts	1,167,455	1,219,049
electric power, heat energy	655,189	588,977
other communal expenses	108,234	92,499
postal expenses	18,171	16,078
Third party services	1,524,881	1,610,344
Expenses on telecoms operators' services (excluding Rostelecom OJSC)	1,293,734	589,759
Expenses on Rostelecom OJSC services	165,032	3,116,236
Expenses on operating rent payments	698,877	421,848
Expenses on financial lease payments	507,538	88,741
Expenses on property insurance	196,749	214,535
Charges to provision for universal service	258,640	204,168
Taxes and duties included in operating expenses	59,647	59,937
Other expenses	1,114,656	1,047,121
TOTAL:	21,212,271	21,662,209

Reduction in costs in 2006 was KRUR 449,938 against 2005.

The reduction in expenses is mainly caused by a decrease in expenses on Rostelecom OJSC due to the changes in legislative acts of the Russian Federation from January 1, 2006, that regulate the procedure for providing services of long-distance domestic and international communication (see clause 7.1. hereof).

Increase in labor expenses is related to an increase in minimum salaries in accordance with the Collective Agreement.

Depreciation growth is caused by commissioning of fixed assets, including on account of equipment acquired under lease contracts.

Increase in costs on "Electric power" item is caused by increase in tariffs and amounts of energy consumption.

Decrease in expenses on "Materials, fuel and spare parts" item is caused by the stricter control over their use.

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Increase in expenses on lease payments in 2006 by KRUR 418,797 against 2005 is related to termination of operation sublease agreements made earlier and entering into financial lease contracts on April 28, 2006, with VTB-Leasing OJSC in the amount of KRUR 1,004,893 and with Petroleasing-Management CJSC in the amount of KRUR 879,900 , VAT inclusive.

Expenses on provision for contingent liabilities

Within the framework of the improving performance, the Company adopted the Program for Headcount Optimization in March 2006 approved by the Company's Board of Directors (Minutes No. 21 dated March 31, 2006,). The Program provides for a gradual decrease in headcount over the period of 2006 – 2008.

In December 2006, the Company created a provision for severance pay to the employees, who are notified of the forthcoming staff reduction as of December 31, 2006 (in the procedure specified by Article 180 of the Labor Code of the Russian Federation). Expenses on the creation of the provision made KRUR 39,993 and were posted to operating expenses (under the labor expenses item).

Expenses on services of telecoms operators

Procedure of the Company's interaction with operators of local, zonal, long-distance and international telephone communication network, as well as with operators of data networks changed in 2006.

From January 1, 2006, the Company is bearing 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 above services are paid for in accordance with the prices specified by agreements between the relevant parties.

The Company's expenses on traffic transfer services made KRUR 722,121 in 2006 (KRUR 99,225 in 2005).

In 2005, the Company provided long-distance domestic and international communication services and paid connected operators for their participation in technological process of providing intrazone, long-distance domestic and international communication services to such operators' users. Amounts of settlements with connected operators were defined as percentage of revenues received by the Company from providing the connected operators' users with intrazone, long-distance domestic and international communication services.

In 2006, the Company does not provide long-distance domestic and international communication services. Settlements with connected operators are effected depending on the level of connection (local or zonal) for local or zonal initiation or termination of call at the price per 1 minute fixed by the relevant connected operator.

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Expenses on services of Rostelecom OJSC

Before January 1, 2006, the Company provided long-distance domestic and international communication services to users and bore expenses on payment for services of Rostelecom OJSC on transfer of long-distance domestic and international traffic through the network of Rostelecom OJSC to another region of Russia or another country. Price for the services of Rostelecom OJSC included a component for termination of outgoing traffic initiated from the Company's network to other operators' networks, which was then paid by Rostelecom OJSC to such operators.

In 2005, the Company's expenses on these services of Rostelecom OJSC were KRUR 3,052,061

From 2006 the Company does not provide long-distance domestic and international communication services, therefore there are no payments to Rostelecom OJSC for transfer of long-distance domestic and international traffic initiated from the Company's network through the network of Rostelecom OJSC in the Company's expenses structure.

In 2006, the Company pays Rostelecom OJSC for the services on termination of call to other telecoms operators' networks, if call is initiated from mobile radiotelephony network owned by the Company.

The Company's expenses on connection services provided to Rostelecom OJSC made KRUR 99,848 in 2006 (KRUR 0 in 2005).

Expenses on universal communication services

The Company's expenses on universal communication services were KRUR 172 in 2006. As a result, the loss from universal communication services with the use of coin-boxes was generated in the amount of KRUR 172

The amount of loss from universal communication services should be confirmed by an independent auditor in accordance with the Regulations on Compensation of Universal Service Operators for Losses Caused Through Universal Communication Services (approved by Decree No. 246 of the Government of the Russian Federation dated April 21, 2005,).

The Company has received an opinion of an independent auditor as to confirmation of losses from universal communication services for 2006.

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7.3. Other income and expenses

Other income

Indicator	2006	2005
Income from recovery of provision for doubtful debts	956,565	-
Income from write-off of accounts payable	181,547	12,391
Exchange differences	86,497	100,690
Income from sale and other disposal of other assets	43,724	29,389
Write-off of deferred income	37,607	34,342
Profit of past years discovered over the reporting year	37,397	43,204
Income from sale and other disposal of fixed assets	21,941	14,870
Sum differences	21,373	39,090
Fines, penalties and forfeits for breach of agreements; proceeds from damage recovery	20,934	25,316
Other income	57,647	44,279
including:		
expenses on write-off of penalties and fines on taxes restructuring	29,087	-
value of property discovered based on inventory taking results	2,121	31,279
other	26,439	13,000
TOTAL:	1,465,232	343,571

Increase in operating income in 2006 against 2005 by KRUR 1,121,661 was mainly caused by recognition of income from recovery of the provision for doubtful debts due to inflow of money in the amount of KRUR 1,022,318 from the federal budget to repay accounts receivable.

Increase in income from write-off of accounts payable was caused by write-off of late payment interest under the amicable agreement with the Ministry of Finance of the Russian Federation (VEB) in the amount of KRUR 175,386

In accordance with the Government Decree No. 1002, the Company has restructured debt in part of the federal budget on profit tax and VAT. In case of repayment of half of the restructured debt within 4 years, tax inspectorate in the place of the entity's location writes off the debt on penalties and fines in full amount.

The Interregional Tax Authority No. 7 of the Federal Tax Service of Russia for Major Taxpayers considered the Company's application on write-off of debts on penalties and fines on profit tax and VAT and made a decision on March 30, 2006 to write off the debts on penalties and fines in relation to the Company's Vladimir, Voronezh, Tula and Verkhnevolzhsky affiliated branches. Income from write-off of penalties and fines on restructured taxes were KRUR 29,087 in 2006.

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Other expenses

Indicator	2006	2005
Losses of past years discovered over the reporting year	1,136,965	61,275
Expenses on taxes and duties	715,278	677,373
Membership dues to associations, non-profit partnerships	186,832	218,334
Expenses on fees for credit organizations' services	148,203	128,601
Expenses related to sale and other disposal of fixed assets	115,477	49,220
Payments to personnel not included in operating expenses	103,166	167,660
Exchange differences	62,324	33,412
Expenses on mobilization training and civil defense	49,892	42,485
Expenses related to charitable activities, cultural events and other similar events	47,789	70,561
Expenses related to sale and other disposal of assets	47,500	48,854
Fines, penalties and forfeits for breach of agreements, damage recovery	32,883	30,729
Sum differences	19,503	25,264
Write-off of accounts receivable	16,501	27,061
Expenses on provision for doubtful debts	-	354,424
including:		
on trade accounts receivable	-	292,834
on other accounts receivable	-	61,590
Other expenses	472,917	612,354
including:		
expenses on debt restructuring with the Ministry of Finance of the Russian Federation	73,370	-
fees for debt collection services	80,894	4,600
charges for social needs and to trade union organizations	54,548	55,607
consultancy, financial services and training	23,377	35,798,
non-operating expenses	23,854	19,179
charges to non-governmental pension fund	20,000	283,000
expenses on state duty	8,372	7,867
write-off of capital investment on construction in progress items based on the results of inventory taking	8,610	13,553
expenses on write-off of non-production inventories	3,344	13,166
expenses related to services provided to veterans of the Great Patriotic war and opening of monuments to participants of the Great Patriotic war	1,094	17,476
expenses on evaluation of property, securities, etc.	1,187	18,959
other	174,267	143,149
TOTAL:	3,155,230	2,547,607

Increase in expenses in 2006 against 2005 in the amount of KRUR 607,623 is mainly caused by the following factors:

- expenses on the provision for doubtful accounts receivable made KRUR 354,424 in 2005 (see clause 6.8. hereof);

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- expenses on non-governmental pension provision made KRUR 20,000 in 2006 (KRUR 283 000 in 2005). Charges to NPF Telecom-Soyuz non-governmental pension fund made KRUR 20,000 in 2006 due to the fact that surplus on the agreement with NPF Telecom-Soyuz made KRUR 229,057 as of January 01, 2006. Thus, services of non-governmental pension provision were provided to the Company on account of the surplus in 2006.

As mentioned in clause 6.3. hereof, an increase in expenses on “Losses of past years discovered over the reporting year” item is related to creation of provision for impairment in value of contributions into authorized capital of RTS OJSC, since the Company’s management believes that the factors that have caused steady decrease in value of this financial investment existed as of the reporting date of the previous period.

Moreover, the Company reflected provision for contingent liabilities in part of payment of fees for the Company’s representation in the arbitration court in accordance with the requirements of clause 4 of the Accounting Statement 8/01 “Contingencies” due to the amicable agreement with the Ministry of Finance of the Russian Federation effective from December 27, 2006 (see clause 6.15. hereof). The amount of expenses on this provision made KRUR 73,370

7.4. Expenses on profit tax

The Company defined the following components of profit tax in 2006:

Indicator	Amount	Tax rate	Amount	Component of profit tax
Book profit	3,369,508	24%	(808,682)	Conditional expense on profit tax
Taxable temporary differences:	(1,641,317)	24 %	(393,916)	Deferred tax liabilities
including:				including:
- differences arisen:				
over the reporting period	(734,387)	24 %	(176,253)	- deferred tax liabilities created
under the adjusted return for the previous period (see clause 6.9)	(928,190),	24%	(222,760)	- deferred tax liabilities created
- differences repaid	21,260	24 %	5,103	- deferred tax liabilities repaid
Deductible temporary differences	470,870	24 %	113,009	Deferred tax assets
including:				including:
- differences arisen	638,342	24 %	153,202	- deferred tax assets created
- differences repaid	(167,472)	24 %	(40,193)	- deferred tax assets repaid
Continuing taxable differences, net	2,158,214	24 %	(517,971)	Continuing tax liability
Tax base under the tax return	5,285,465	24 %	(1,268,512)	Current tax
Amount of privilege on profit tax			5,000	Current tax Continuing tax liability
Amount of tax for previous periods, including				
- according to adjusted continuing difference of the previous period (see clause 6.9)			(6)	Profit tax under adjusted returns for past periods Continuing tax liability
- according to adjusted taxable difference of the previous period (see clause 6.9)			222,766	Profit tax under adjusted returns for past periods Deferred tax liability

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The Company's expenses on profit tax for 2006 :

Total	(1,321,659)
including	
- theoretical expense on profit tax	(808,682)
- permanent tax liabilities	(512,977)

The Company's expenses on profit tax for 2006 are shown in the Profit and Loss Statement as an aggregate amount of:

Total	(1,321,659)
including	
- current tax	(1,263,512)
- deferred tax liabilities	(393,916)
- deferred tax assets	113,009
- profit tax under adjusted returns for previous periods	222,760
Continuing taxable differences that resulted in adjustment of conditional profit tax, total	2,265,397
including:	
Expenses on creation of provision for impairment in value of financial investments	1,056,553
Expenses generating cost, but not accounted for the purpose of profit taxation	383,829
Expenses on non-profit partnership	185,624
Payments to personnel not included in operating expenses	103,166
Other expenses	112,353
Differences between residual value of fixed assets in accounting and tax accounting by write-off	53,142
Taxes not accounted for the purpose of taxation	43,744
Losses of past years discovered over the reporting period	49,619
Book depreciation of fixed assets that are non-depreciable property in accordance with the Tax Code of the Russian Federation	33,092
Expenses on social needs not referred to payments to personnel	29,693
Expenses on cultural events	25,059
Charges to trade union committee	24,855
Charitable activities, membership dues to non-profit organizations	23,938
Provision for doubtful debts on advances and other accounts receivable	21,368
Write-off of accounts receivable	16,501
Loss of the reporting period in activities related to use of auxiliary productions and facilities (in accordance with Article 275.1 of the Tax Code of the Russian Federation)	15,515
Other taxable continuing differences	87,346

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Continuing deductible differences that resulted in adjustment of conditional profit tax, total	107,183
including:	
Profit of past years discovered over the reporting year on income not accounted for the purpose of taxation	23,873
Income from recovery of provision for doubtful debts in part of accounts receivable which were included in transition period base	22,999
Income equal to amount of depreciation charged on proceeds that were not levied with profit tax as of the moment of receipt	17,306
Income in the form of dividends received	15,472
Other deductible continuing differences	27,533
TOTAL Continuing taxable differences, net	2,158,214
Temporary taxable differences that resulted in adjustment of conditional profit tax, total	1,641,317
including:	
Difference in depreciation methods and generation of historical cost of fixed assets in accounting and tax accounting	718,936
According to adjusted returns for previous periods	928,190
Difference in methods of deferred expenses reflection in financial accounting and tax accounting	(5,809)
Temporary deductible differences that resulted in adjustment of conditional profit tax, total	470,870
including:	
Difference between expenses on provision for doubtful debts for the purpose of accounting and tax accounting (except for accounts receivable written off for transition period base)	139,501
Charges to provision for bonuses and rewards	181,763
Expenses on creation of provision for contingent liabilities on fees on debt settlement with VEB	73,370
Expenses on creation of provision for contingent liabilities related to headcount optimization	39,192
Charges to provision for leave pays	36,264
Gratuitous proceeds that are subject to taxation at the moment of receipt, but accounted in deferred income according to the accounting regulations	(10,596)
Losses on transition period base	(9,164)
Losses from sale of fixed assets items	9,554
Other	10,986

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7.5. 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.

7.6. Earnings per share

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

Basis profit for the reporting year equals to net profit (item 190 of the Profit and Loss Statement) less dividends on preference shares for 2006 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 2006.

When calculating average weighted number of outstanding ordinary shares over the reporting year, the Company’s shares redeemed from shareholders were deducted.

Indicator	2006	2005
Basic profit for the reporting year, thousand	1,843,064	588,072
Average weighted number of outstanding ordinary shares over the reporting year, thousand shares	1,578,007	1,578,007
Basic profit per share, RUR	1.16797	0.37267

The Company did not additionally issue any ordinary shares in 2006. The Company did not hold any securities, issue conditions for which would provide for conversion into additional number of ordinary shares. There were no events related to an increase in the number of ordinary shares. Therefore, the Company does not make calculations of diluted earnings per share.

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8. Affiliates

The Company discloses the most essential information about affiliates in the explanatory notes. The list of affiliates is presented below.

- the Company's Management Board and the Board of Directors (see clause 2 hereof);
- Communication and Informatics Company of Dagestan Republic OJSC;
- Mobile Telecommunications CJSC;
- Startcom CJSC;
- RusLeasingSvyaz CJSC;
- FK-Svyaz CJSC;
- VolgaTelecom OJSC;
- Giprosvyaz OJSC;
- Far Eastern Electric Communication Company OJSC;
- Kostroma Urban Telephone Network OJSC;
- Moscow Urban Telephone Network OJSC;
- North-West Telecom OJSC;
- Sibirtelecom OJSC;
- Uralsvyazinform OJSC;
- Central Telegraf OJSC;
- Southern Telecommunication Company OJSC;
- Rostelecom OJSC;
- Medexpress CJSC;
- Telecom-Soyuz NPF;
- RadioTel CJSC;
- Professional Telecommunications CJSC;
- Tetrasvyaz CJSC;
- Russian Foundation of Communication History;
- NP Research Center for Telecommunications Development Problems;
- St.Petersburg Pay-Phones CJSC;
- National Pay-Phone Network OJSC;
- Svyazintek OJSC;
- NCH Advisors, Inc;
- Communication Investment Company OJSC (Svyazinvest OJSC);
- CenterTelecomService CJSC;
- Vladimir Teleservice CJSC;
- Telecom of Ryazan Region CJSC;
- TeleRossVoronezh CJSC;
- Telecom-Stroi LLC;
- Vladimir Taxofon LLC;
- MobilCom LLC;
- TverTelecom LLC;
- Telecom-Terminal LLC;
- Teleport Ivanovo TPI CJSC;
- PVP Svyaz-Service-Irga LLC;
- RTS OJSC;
- TK Rinfotels OJSC;
- ATS CJSC.

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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. The remaining 49.31 % of ordinary shares are placed among 25,742 shareholders of the Company, including 187 legal bodies and 25,555 individuals.

Svyazinvest OJSC is the parent organization of the Group of related entities, of which the Company is a member.

Income from sale of products and services to affiliates

Over the reporting year, the Company provided services and sold its products to the following affiliates (major amounts, above RUR 1 mln):

Name of affiliate	Nature of relationship	Types of sales	Method of pricing on transactions	2006	2005
Rostelecom OJSC	Belongs to the same group of entities as the Company	Traffic transfer services	Contractual	5,534,878	1,183,894
ATS CJSC	The Company owns more than 20% of voting shares	Communication services	Contractual	33,122	3,255
Central Telegraf OJSC	Belongs to the same group of entities as the Company	Communication services	Contractual	24,787	23,232
CenterTelecomService CJSC	The Company owns more than 20% of voting shares	Communication services	Contractual	21,744	11,435
Russian Telecommunication Network OJSC	The Company owns more than 20% of voting shares	Communication services	Contractual	10,822	16,016
Kostroma Urban Telephone Network OJSC	Belongs to the same group of entities as the Company	Communication services	Contractual	6,847	227
TverTelecom LLC	The Company owns more than 20% of voting shares	Communication services	Contractual	6,624	30,781
Rinfotels Telecommunication Company OJSC	The Company owns more than 20% of voting shares	Communication services	Contractual	6,202	4,987
Vladimir Teleservice CJSC	The Company owns more than 20% of voting shares	Communication services	Contractual	3,369	1,658
Telecom of Ryazan Region CJSC	The Company owns more than 20% of voting shares	Communication services	Contractual	2,185	1,294
National Pay-Phone Network OJSC	Belongs to the same group of entities as the Company (affiliated through members of management bodies)	Communication services	Contractual	1,799	1,628
Vladimir Taxofon LLC	The Company owns more than 20% of voting shares	Communication services	Contractual	1,791	2,029
Teleport Ivanovo LLC	The Company owns more than 20% of voting shares	Communication services	Contractual	1,699	348
Telecom-Stroi LLC	The Company owns more than 20% of voting shares	Communication services	Contractual	1,028	1,921

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Purchases from affiliates

The following affiliates provided services to the Company during the reporting year (major amounts, above RUR 1 mln):

Name of affiliate	Nature of relationship	Types of purchases	Method of pricing on transactions	2006	2005
NP Research Center for Telecommunications Development Problems	Belongs to the same group of entities as the Company (affiliated through members of management bodies)	Membership dues, agency services	Contractual	211,474	215,706
Svyazintek OJSC	Belongs to the same group of entities as the Company (affiliated through members of management bodies)	Software delivery	Contractual	168,080	18,411
Rostelecom OJSC	Belongs to the same group of entities as the Company	Traffic transfer services	Contractual	166,050	3,123,138
CenterTelecomService CJSC	The Company owns more than 20% of voting shares	Communication services	Contractual	127,946	34,484
Telecom-Stroi LLC	The Company owns more than 20% of voting shares	Communication services	Contractual	77,328	21,684
ATS CJSC	The Company owns more than 20% of voting shares	Traffic transfer	Contractual	52,248	32,552
Giprosvyaz OJSC	Belongs to the same group of entities as the Company	Design works	Contractual	42,219	32,178
Russian Telecommunication Network OJSC	The Company owns more than 20% of voting shares	Communication services	Contractual	31,338	17,498
Kostroma Urban Telephone Network OJSC	Belongs to the same group of entities as the Company	Communication services	Contractual	25,318	16,686
Telecom of Ryazan Region CJSC	The Company owns more than 20% of voting shares	Equipment lease, traffic transfer	Contractual	22,949	22,575
Medexpress CJSC	Belongs to the same group of entities as the Company (affiliated through members of management bodies)	Voluntary medical insurance	Contractual	22,460	17,773
Name of affiliate	Nature of relationship	Types of purchases	Method of pricing on transactions	2006	2005

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NPF Telecom-Soyuz	Belongs to the same group of entities as the Company (affiliated through members of management bodies)	Pension charges	Contractual	20,000	283,000
MGTS OJSC	Belongs to the same group of entities as the Company	Communication services	Contractual	9,488	11,027
Svyaz-Service Irga Production and Technology Enterprise LLC	The Company owns more than 20% of voting shares	Communication services	Contractual	3,060	1,349
National Pay-Phone Network OJSC	Belongs to the same group of entities as the Company (affiliated through members of management bodies)	Equipment delivery	Contractual	1,104	74

Status of settlements with affiliates

As of December 31, 2005, the debt of affiliates to the Company and the debt of the Company to the affiliates constitute the following amounts (major amounts, above RUR 1 mln.):

Name	Nature of relationship	Type of debt	31.12.2006	31.12.2005
Accounts receivable				
Rostelecom OJSC	Belongs to the same group of entities as the Company	Traffic transfer services	743,577	1,178
NP Research Center for Telecommunications Development Problems	Belongs to the same group of entities as the Company (affiliated through members of management bodies)	Membership dues, agency services	81,276	105,513
Svyazintek OJSC	Belongs to the same group of entities as the Company (affiliated through members of management bodies)	Software delivery	71,763	193,391
Name	Nature of relationship	Type of debt	31.12.2006	31.12.2005
TverTelecom LLC	The Company owns more than 20% of voting shares	For communication services, premises lease	44,378	37,084
Mobilcom LLC	The Company owns more than 20% of voting shares	For communication services	13,308	13,721
CenterTelecomService CJSC	The Company owns more than 20% of voting shares	For communication services	12,537	1,281
Central Telegraf OJSC	Belongs to the same group of	For	8,073	4,020

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	entities as the Company	communication services		
Telecom-stroi LLC	The Company owns more than 20% of voting shares	Lease, other services	5,503	4,730
Giprosvyaz OJSC	Belongs to the same group of entities as the Company	Design works	5,435	2,957
ATS CJSC	The Company owns more than 20% of voting shares	Communication services	4,102	1,165
Kostroma City Telephone Network OJSC	Belongs to the same group of entities as the Company	For communication services	1,550	24
RusLeasingSvyaz CJSC	Belongs to the same group of entities as the Company (affiliated through members of management bodies)	Equipment delivery	1,051	2,311
Russia Telecommunication Network OJSC	The Company owns more than 20% of voting shares	For communication services, equipment delivery	743	20,990
Accounts payable				
Rostelecom OJSC	Belongs to the same group of entities as the Company	Traffic transfer services	415,156	190,593
CenterTelecomService CJSC	The Company owns more than 20% of voting shares	For communication services	24,848	7,778
Giprosvyaz OJSC	Belongs to the same group of entities as the Company	Design works	22,223	0
Name	Nature of relationship	Type of debt	31.12.2006	31.12.2005
Rusleasingsvyaz CJSC	Belongs to the same group of entities as the Company (affiliated through members of management bodies)	For equipment delivery	7,327	20,276
ATS CJSC	The Company owns more than 20% of voting shares	traffic transfer	4,820	3,440
Kostroma City Telephone Network OJSC	Belongs to the same group of entities as the Company	For communication services	3,459	57
Russian Telecommunication Network OJSC	The Company owns more than 20% of voting shares	For communication services	2,570	2,821
MGTS OJSC	Belongs to the same group of entities as the Company	For communication	1,775	505

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		services		
Telecom of Ryazan Region CJSC	The Company owns more than 20% of voting shares	For communication services, lease	1,144	1,003
Telecom-stroi LLC	The Company owns more than 20% of voting shares	Buildings repair, equipment delivery, other services	486	1,753

Remuneration of directors

In 2006, the Company paid to the members of Board of Directors, members of the Company's Management Board and members of the Company's Audit Committee fees in the total amount of KRUR 64,859 (KRUR 51,755 in 2005). The list of members of the Company's Board of Directors, Management Board and Audit Committee is represented in "General Data" section hereof. Expenses on remuneration of members of the Company's Board of Directors, Management Board and Audit Committee are reflected in operating expenses as other expenses of the organization.

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9. Non-state pension insurance

On December 28, 2006, the Company made Additional Agreement No. 1 to Agreement for Non-Governmental Pension Plan No. 10/44-VYu/5036/04/DO, dated December 23, 2004, with Telecom-Soyuz non-governmental pension fund (hereinafter “the Fund”).

According to this agreement, the Company has obligations on monthly contributions in the amount to be defined based on the data about employees retiring in the reporting month.

The total amount of contributions to the non-governmental pension plan paid by the Company in 2006 were KRUR 20,000 (KRUR 283,000 in 2005).

In accordance with this Agreement for Non-Governmental Pension Plan, the Company (Investor) is obliged to pay pension contributions to the Fund for the benefit of Participants having labor relations with the Investor, and the Fund is obliged to pay non-governmental pensions to the Participants of the Fund when they retire.

According to the conditions of the Agreement, pension contributions are reflected on the personal pension accounts of the Participants and serve as a source of lifelong payments.

Obligations on payment of lifelong pensions under this Agreement are exclusive obligations of the Fund. Under the Agreement for Non-Governmental Pension Plan, the Company only has obligations on timely transfer of pension contributions to the Fund.

Moreover, the new conditions of this Agreement for Non-Governmental Pension Plan provide for changing the procedure for measuring the basic part of pension. The amount of basic part of pension will be defined not through calculations, as it was provided for by the conditions of the agreement before amendments, but will be fixed as a lump sum depending on the employee's position.

10. Contingencies

Business environment

Along with improvement of economic situation, particularly, growth in gross domestic product and decrease in inflation rate, economic reforms and development of legal, tax and administrative systems that would meet the requirements of the market economy, continue in Russia. Stability of the Russian economy will considerably depend on the progress of the reforms in these areas, as well as on effectiveness of measures taken by the government in the area of economy, financial, and monetary and credit policy.

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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 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 were 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 interprets relevant provisions of laws correctly as of December 31, 2006, and probability of keeping the Company's status in terms of compliance with 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 the issues that allow ambiguous interpretation of tax laws, particularly on measuring revenues under agreements on interaction between networks. Neither measuring amounts of claims on actions that are possible but not brought, nor assessment of probability of unfavorable outcome is possible.

The financial statements as of December 31, 2006 do not include any adjustments that may be needed due to such uncertainties and positions accepted by the Company (see clause 11 hereof).

Guarantees issued

The Company acted as a guarantor for third parties in the total amount of KRUR 1,869,773 (KRUR 2,812,210 in 2005). The Company does not expect any material liabilities in relation to such guarantees.

Litigations

Within 2006, the Company was a party to 19,097 actions in the total amount of KRUR 520,961 (taking into account judgments on recovery of penalties given by the courts).

In 2006:

- legal bodies brought 98 actions against the Company for the total amount of KRUR 338,961. Within this category of disputes, 14 actions for the total amount of KRUR 502 have been satisfied by the courts; cases on 98 actions in the amount of KRUR 15,699 have been discontinued.

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- individuals brought 199 actions against the Company in the total amount of KRUR 59,445 in 2006, including 96 actions on moral damage recovery in the total amount of KRUR 57,597. Within this category of disputes, 49 actions in the total amount of KRUR 608 have been satisfied by the courts; cases on 2 actions in the amount of KRUR 15 have been discontinued due to voluntary satisfaction of the actions by the Company prior to judgment announcement; 206 actions in the total amount of KRUR 56,316 have been dismissed.

- the Company brought 1,619 actions against legal bodies in the total amount of KRUR 2,427,223. Within this category of disputes, 878 actions in the total amount of KRUR 38,099 of principal and KRUR 757 of penalties for breach of obligations have been satisfied by the courts; cases on 762 actions in the amount of KRUR 12,448 have been discontinued due to voluntary repayment of debt by debtors prior to judgment announcement; cases on 72 actions in the total amount of KRUR 10,888 have been discontinued on other grounds.

- the Company brought 17,924 actions against individuals in the total amount of KRUR 25,404. Within this category of disputes, 12,821 actions in the total amount of KRUR 19,659 of principal and KRUR 293 of penalties for breach of obligations have been satisfied by the courts; cases on 4,027 actions in the amount of KRUR 4,685 have been discontinued.

- the Company and legal counsels retained on behalf and for the benefit of the Company brought 189 actions for damages in the total amount of KRUR 344,343 incurred by the Company in connection with granting privileges on payment for communication services to certain categories of individuals. Within this category of disputes, 140 actions in the total amount of KRUR 261,676 have been satisfied by the courts; 13 actions in the total amount of KRUR 3,394 have been discontinued due to voluntary repayment of debt prior to judgment announcement; 15 actions in the total amount of KRUR 95,922 have been discontinued on other grounds.

As of December 31, 2006, the Company acted as a party to 6,436 litigations, aggregate claims on which amounted to KRUR 3,470,505.

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 plans to reduce staff by 2,973 persons over 2007. Of that, 1,544 employees have been notified of the forthcoming dismissal as of December 31, 2006. Provision for contingent liabilities on severance pay to such employees has been created in the amount of KRUR 39,993.

Changes in industry laws

Changes in the industry laws in 2006 had considerable impact on financial standing and financial performance of the Company. These innovations caused substantial changes in the Company's relationships with connected operators and long-haul communication operators, including Rostelecom OJSC. Within 2006, the Company carried out contractual campaign on renewal of the acting agreements with connected operators and long-haul communication operators in order to bring them in conformance to the requirements of the industry laws.

Due to the fact that considerable part of new regulatory legal acts was enacted from January 01, 2006, at present there is almost no enforcement practices in relation to new provisions of the industry laws. As a result, differences in interpretation of laws by the regulator and the Company are possible. The management believes that in general it interprets relevant provisions of the

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industry laws correctly as of December 31, 2006, and present uncertainty in interpretation of requirements stipulated by newly enacted regulatory acts will not have considerable impact on the Company's financial standing and performance in the future reporting periods.

11. Events after the Balance Sheet date

11.1. Dividends

The amount of annual dividend per share will be approved by the Company's General Shareholder Meeting on June 18, 2007. The level of dividends for 2006 to be recommended by the Company's Board of Directors for approval by the General Shareholder Meeting will make KRUR 0.1617325 per ordinary share and KRUR 0.3893300 per preference share (KRUR 0.0674190 and KRUR 0.1270937, respectively, in 2005), which will amount to KRUR 460,000 (KRUR 173,238 in 2005). Upon approval by the General Shareholder Meeting, payable annual dividends will be reflected in financial statements for 2007.

11.2. 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), 1,079 employees were dismissed (as redundant) over the period from December 31, 2006 until March 31, 2006. The Company paid severance pay in the amount of KRUR 27,318

11.3. Scheme of interaction with Rostelecom OJSC

Relationships with Rostelecom OJSC in the part of the agreement concerning telecommunication networks connection have been changed since January 1, 2007. From January 1, 2007 on, the Company does not plan to connect to the telecommunication network of Rostelecom OJSC at the level of long-distance domestic and international communication. After this date, Rostelecom OJSC will connect to the Company's telecommunication network at the zonal level. Thus, the Company expects additional expenses on connection services (both lump sum and monthly payments).

The Company plans to shift to billing on a per second basis in 2007 within implementation of the connection agreement with Rostelecom OJSC, which, according to estimates of the Company's management, will result in a decrease in income from traffic transfer services by more than 10%.

Federal Law No. 119-FZ dated July 22, 2005, amended Article 21 of the Tax Code of the Russian Federation, which became effective from January 1, 2006, and defined the procedure for deduction of value added tax in case of non-cash settlements (in particular, for set-off of counterclaims). From January 1, 2007, VAT may be allowed for deduction only upon actual payment of tax to supplier. As a consequence, the pattern of settlements with Rostelecom OJSC may be changed in 2007 in part of cancellation of set-off of counterclaims.

11.4. Changes in industry laws

Amendments to Federal Law No. 126-FZ dated July 07, 2003, "On Telecommunications" made by Federal Law No. 14-FZ dated February 09, 2007, will become effective in July 2007.

The amendments introduce:

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- mandatory assessment of communication network system design compliance with the requirements in the field of telecommunications in the form of expert examination to be carried out in the procedure specified by the Government of the Russian Federation;
- registration of a telecoms operator's telecommunication network included in the public telecommunication network in the procedure specified by the Government of the Russian Federation.

Given the fact that neither the procedure for expert examination of communication network system design, nor the procedure for registration of telecommunication networks are developed by the Government of the Russian Federation, the Company is unable to assess consequences of the changes in law.

Telecommunication networks built prior to the effective date of these amendments must be registered in accordance with the requirements of the amended Federal Law "On Telecommunications" not later than on January 01, 2010.

11.5. Tariff regulation

Order No. 261-s/2 of the Federal Tariff Service of Russia, dated November 14, 2006, "Approval of Tariffs for Local, Intrazone Telecommunication Services and Compensatory Allowance to Price on Local and Zonal Call Initiation Services Provided by CenterTelecom OJSC and Telecoms Operators in the Territory of Bryansk, Vladimir, Ivanovo, Kaluga, Kostroma, Moscow, Orel, Ryazan, Smolensk, Tver, Tula, Yaroslavl, Belgorod, Voronezh, Kursk, Lipetsk and Tambov Regions" approved and introduced tariffs on local, intrazone telephone communication services, as well as compensatory allowance to the price for local and zonal call initiation services in the amount of RUR 0.50 per minute from February 01, 2007.

Monthly payment for local telephone communication services will be comprised of mandatory payments for "Provision of subscriber's line for permanent use" and "Provision of local telephone connection" services (under one of the payment systems selected).

Given availability of technological capabilities for time-based accounting of local telephone connection duration, the Company should introduce:

- three mandatory tariff plans for individual subscribers (time-based, subscription and combined payment system); and
- one mandatory tariff plan for corporate subscribers (time-based payment system).

The tariff plan with subscription payment system is primarily intended for subscribers who talk a lot and have no limitations as to telephone communications. This tariff plan allows to talk for an unlimited number of minutes and pay a fixed amount on a monthly basis.

The tariff plan with time-based payment system implies payment for calls on a per minute basis, starting from the first second with telephone connections for less than 6 seconds not subject to payment.

The tariff plan with combined payment system includes monthly limited number of minutes provided for a fixed payment and provides for payment for calls above the specified limit on a per minute basis at reduced price per minute. Thus, subscribers will have to pay less for additional minutes.

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If there is no technical capability to implement time-based accounting of local telephone connections duration for all categories of subscribers, there is a unified tariff plan with subscription payment system calculated based on average duration of local telephone connections.

Along with introduction of the new tariffs for local telephone communication, tariff for intrazone telephone connection in tariff zone 2 during the peak load periods has been reduced by 5%.

11.6. Capital investments

The Company plans to make capital investments in the amount of KRUR 707,989 in 2007 in order to bring its networks in conformance to the requirements of the regulatory acts as to building telecommunication networks and traffic transfer.

11.7. Overdue accounts payable

The amount of overdue accounts payable as of February 28, 2007, is KRUR 370,322. They include the following major amounts (above RUR 10 mln):

No.	Lender	Amount of overdue debt
1.	Paladin Invent LLC	64,176
2.	Country Telecommunications Company CJSC	57,188
3.	ISG CJSC	38,196
4.	Vympel-Communications OJSC	33,490
5.	Paladin Invent LLC	18,931
6.	Telekart-2 LLC	18,505
7.	Iskratel CJSC	18,000
8.	Verisel Projects CJSC	17,633
9.	ALS and TEC Company LLC	15,469
10.	Mediatel CJSC	13,163
11.	Smarts CJSC	11,737

11.8. Tax dispute with Interregional Inspectorate No. 7 of the Federal Tax Service of Russia for Major Taxpayers based on the results of field tax audit

Based on the tax audit of the Company's activities in 2002 – 2003, the Interregional Inspectorate No. 7 of the Federal Tax Service of Russia for Major Taxpayers adopted Resolution No. 4 on April 24, 2006 to hold the Company accountable for tax offence.

The amount of the tax authority's claim against the Company is RUR 2,355 mln, of which RUR 1,400 mln is taxes and RUR 955 mln is penalties and fines. The basic amount of the claims is related to settlements between operators.

Decision of the Arbitration Court of Moscow dated October 02, 2006, satisfied the Company's interlocutory injunction motion. Resolution No. 4 dated April 24, 2006 of Interregional Inspectorate No. 7 of the Federal Tax Service of Russia for Major Taxpayers, about holding the Company accountable for tax offence was suspended; it was prohibited to the tax inspectorate to recover taxes, penalties and fines. The Federal Arbitration Court of Moscow District confirmed this decision of the Arbitration Court of Moscow.

On February 1, 2007, the Arbitration Court of Moscow made the second similar decision on interlocutory injunction.

The Company filed a motion to acknowledge unlawfulness of Resolution No. 4 of the tax inspectorate with the Arbitration Court of Moscow on May 3, 2006. Based on the results of the trial

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on February 27, 2007, the court of first instance acknowledged the tax authorities' claims in the amount of RUR 2,342 mln to be groundless.

11.9. Field audit of the Company's activities in 2004-2006

On February 19, 2007, the Company received Resolution No. 8 of Interregional Inspectorate No. 7 of the Federal Tax Service of Russia for Major Taxpayers about a field tax audit to check compliance with the Russian tax laws over the period from January 1, 2004 to December 31, 2006.

The tax audit has not been completed as of the issue of these financial statements. There is a probability that the governmental tax authorities will find the position accepted by the Company's management in relation to certain issues of interpretation of legal requirements and accrual of relevant tax liabilities to be insufficiently substantiated. However, the Company's management believes that the Company has sufficient reasons to defend its positions on this issue.

At the moment, the Company's management is unable to measure the amounts of claims on actions that are possible, but not brought, as well as probability of unfavorable outcome of the tax audit.

11.10. Issue of promissory notes

The Company entered into an agreement on issue of promissory notes with RTK-Broker LLC in January 2007. The amount of paper credit is KRUR 167,523. The total principal amount of the discount promissory notes is KRUR 175,000; the total amount of discount is KRUR 7,468. Maturity of the promissory notes is at sight, however not earlier than July 10, 2007.

11.11. Amicable agreement with the Ministry of Finance of the Russian Federation

In order to settle the obligations to the Ministry of Finance of the Russian Federation (with Vnesheconombank acting as an agent), the Company and the Ministry of Finance of the Russian Federation signed the amicable agreement at the stage of litigation on December 27, 2006. This agreement was approved by the Arbitration Court of Moscow Region on March 12, 2007. The terms and conditions of the amicable agreement apply to the relationships between the parties from December 27, 2006. The amicable agreement provides for debt settlement through its restructuring 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. The Company may make payments on the restructured debt by installments until January 1, 2012; interest is accrued at 2% per annum and payable on an annual basis, not later than on December 31 of the relevant year.

In accordance with the Accounting Statement 7/1998 "Subsequent Events after the Balance Sheet Date" the financial statements for 2006 reflect:

- repayment of the restructured debt in the amount of KRUR 82,063 (EUR 2,370,065.96);
- write-off of late payment interest in the amount of KRUR 175,386 (EUR 5,068,169.86).

Income from write-off of late payment interest in the amount of KRUR 175,386 (EUR 5,068,169.86) is reflected in other income of the Company for 2006 as income from write-off of accounts payable.

In order to secure obligations under the amicable agreement, the Company made Property Pledge Agreement No. 7651/07-DO, dated March 09, 2007, with the Ministry of Finance of the Russian

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Federation for the total pledge value of KRUR 814,610 The Pledge Agreement expires upon performance of obligations under the amicable agreement.

11.12. Universal communication services

In March 2007, the Company won the tender of the Federal Telecommunications Agency for providing universal telephone communications with the use of coin-box telephones in the territory of Ivanovo, Kostroma and Yaroslavl Regions.

According to the conditions of the tenders, the Company will install coin-boxes to provide universal communication services in the territory of 6 urban districts and 21 municipal districts in the territory of Ivanovo Region; in 6 urban districts and 24 municipal districts of Kostroma Region; as well as in 3 urban districts and 17 municipal districts in Yaroslavl Region in 2007.

11.13. Open tender on financial services

On April 04, 2007, in accordance with Federal Law No. 135-FZ dated July 26, 2006, "On Competition Protection", the Company carried out an open tender for the right to enter into a revolving credit line agreement in the maximum amount of RUR 3 bln for the term of two years.

According to the resolution of the tender committee adopted on April 06, 2007, the agreement was awarded to KB Savings Bank of the Russian Federation OJSC. Interest rate on the loan was fixed in the amount of 7.9% per annum. The agreement between the Company and the winner bank to provide the credit line for the Company's needs will be made not later than April 24, 2007, upon approval by the Company's Board of Directors.

Chief Executive

S.V. Pridantsev

Chief Accountant

A.D.Kartashov