Joint-Stock Central Telecommunication Company

Consolidated Financial Statements

for the year ended December 31, 2007
with Independent Auditor's Report

Joint-Stock Central Telecommunication Company

Consolidated Financial Statements

For the Year Ended December 31, 2007

Contents

ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/russia

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent Auditor's Report

To the Shareholders and Board of Directors of Joint-Stock Central Telecommunication Company

We have audited the accompanying consolidated financial statements of Joint-Stock Central Telecommunication Company and its subsidiaries ("the Company"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

May 30, 2008

Joint-Stock Central Telecommunication Company

Consolidated Balance Sheet as of December 31, 2007

(in millions of Russian Roubles)

	Notes	December 31, 2007	December 31, 2006 as restated
ASSETS			
Non-current assets			
Property, plant and equipment	6	**36,332**	33,120
Intangible assets	7	**5,061**	3,594
Investments in associates and joint ventures	9	**1**	52
Long-term investments	10	**467**	1,118
Long-term advances paid	11	**338**	415
Other long term assets	12	**9**	153
Total non-current assets		**42,208**	38,452
Current assets			
Inventories	13	**529**	459
Trade and other receivables	14	**2,670**	2,428
Prepaid income tax		**339**	439
Short-term investments	10	**823**	872
Other current assets	15	**916**	961
Cash and cash equivalents	16	**569**	1,245
Total current assets		**5,846**	6,404
Total assets		**48,054**	44,856
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	18	**6,900**	6,900
Treasury shares	18	**(1)**	(1)
Other reserves		**12**	–
Retained earnings		**10,220**	6,431
Total equity attributable to equity holders of the parent		**17,131**	13,330
Minority interest		**5**	6
Total equity		**17,136**	13,336
Non-current liabilities			
Long-term borrowings	19	**13,194**	15,992
Long-term finance lease obligations	20	**1,927**	1,396
Pension liabilities	23	**2,641**	2,527
Long-term taxes payable	22	**3**	4
Deferred revenue		**362**	401
Deferred income tax liabilities	29	**1,036**	683
Long-term provisions	24	**6**	22
Other non-current liabilities		**59**	55
Total non-current liabilities		**19,228**	21,080
Current liabilities			
Accounts payable and accruals	21	**4,684**	4,796
Taxes payable	22	**287**	394
Dividends payable		**30**	10
Short-term borrowings	19	**571**	775
Current portion of long-term borrowings	19	**4,078**	3,249
Current portion of long-term finance lease obligations	20	**1,697**	1,137
Short-term provisions	24	**343**	79
Total current liabilities		**11,690**	10,440
Total liabilities		**30,918**	31,520
Total equity and liabilities		**48,054**	44,856

General Director ______ V.A. Martirosyan   Chief Accountant ______ A.D. Kartashov

The accompanying notes on pages 7-64 form an integral part of these consolidated financial statements

Joint-Stock Central Telecommunication Company

Consolidated Income Statement

For the Year Ended December 31, 2007

(in millions of Russian Roubles, except earnings per share)

	Notes	2007	2006 as restated
Revenue	25	**33,452**	29,458
Wages, salaries, other benefits and payroll taxes		**(11,007)**	(10,511)
Depreciation and amortization	6, 7	**(4,249)**	(3,588)
Materials, repairs and maintenance, utilities		**(2,583)**	(2,751)
Taxes other than income tax		**(799)**	(728)
Interconnection charges		**(3,083)**	(1,986)
Recovery of impairment of receivables	14	**379**	972
Loss on disposal of property, plant and equipment and other assets		**(165)**	(323)
Other operating expenses	26	**(4,083)**	(3,788)
Operating profit (loss)		**7,862**	6,755
Share of result of associates		**30**	23
Interest expense, net	27	**(1,972)**	(2,624)
Other losses, net		**(6)**	(118)
Gain on subsidiaries, associates and other investments, net	28	**3**	10
Foreign exchange gain, net		**199**	46
Profit before income tax		**6,116**	4,092
Income tax expense	29	**(1,807)**	(1,218)
Profit for the year		**4,309**	2,874
Attributable to:			
Equity holders of the parent		**4,309**	2,871
Minority shareholders		**–**	3
Earnings per share (in Russian Roubles), basic and diluted, for profit for the year attributable to equity holders of the parent	30	**2.048**	1.365

General Director V.A. Martirosyan

Chief Accountant A.D. Kartashov

The accompanying notes on pages 7-64 form an integral part of these consolidated financial statements

Joint-Stock Central Telecommunication Company

Consolidated Cash Flow Statement

For the Year Ended December 31, 2007

(in millions of Russian Roubles)

	Notes	2007	2006 as restated
Cash flows from operating activities			
Profit (loss) before income tax		**6,116**	4,092
Adjustments to reconcile profit before income tax to net cash flows			
Depreciation of property, plant and equipment	6	**4,090**	3,481
Amortization of intangible assets	7	**159**	107
Loss on disposal of property, plant and equipment and other assets		**165**	323
Foreign exchange gain, net		**(199)**	(46)
Share of result of associates		**(30)**	(23)
Gain on subsidiaries, associates and other investments, net	28	**(3)**	(10)
Interest expense, net	27	**1,972**	2,624
Recovery of impairment of receivables		**(379)**	(972)
Deferred revenue amortization		**(39)**	(36)
Inventory impairment provision		**4**	17
Other losses, net		**6**	55
Movement in pension liabilities	23	**114**	385
Provisions accruals (recovery)	24	**270**	(24)
Operating cash flows before working capital changes		**12,246**	9,973
Decrease in trade and other receivables		**297**	402
Decrease in other current assets		**26**	625
Decrease (increase) in inventories		**(73)**	55
Increase in accounts payable and accruals		**190**	1 402
Decrease in taxes payable other than income tax		**(91)**	(725)
Cash generated from operations		**12,595**	11,732
Interest paid		**(2,254)**	(2,856)
Income tax paid		**(1,374)**	(1,618)
Net cash from operating activities		**8,967**	7,258
Cash flows from investing activities			
Purchase of property, plant and equipment and assets under construction		**(5,768)**	(1,993)
Proceeds from sale of property, plant and equipment and assets under construction		**159**	232
Purchase and installation of Oracle EBS		**(428)**	(151)
Purchase and installation of Amdocs Billing Suite		**(1)**	(579)
Purchase of other intangible assets		**(657)**	(84)
Purchase of investments		–	(2,077)
Proceeds from sale of investments		**840**	145
Acquisition of subsidiaries, net of cash acquired		**6**	–
Interest received		**67**	48
Dividends received		**24**	2
Net cash used in investing activities		**(5,758)**	(4,457)

Joint-Stock Central Telecommunication Company

Consolidated Cash Flow Statement (continued)

For the Year Ended December 31, 2007

(in millions of Russian Roubles)

	Notes	2007	2006 as restated
Cash flows from financing activities			
Proceeds from borrowings		**4,170**	3,934
Repayment of borrowings		**(3,280)**	(8,670)
Proceeds from issue of bonds		–	2,976
Repayment of bonds		–	(2,002)
Proceeds from issue of promissory notes		**168**	4,604
Repayment of promissory notes		**(3,191)**	(2,058)
Repayment of finance lease obligations		**(1,221)**	(1,091)
Repayment of liabilities under vendor financing		**(29)**	(67)
Dividends paid to equity holders of the parent		**(501)**	(154)
Dividends paid to minority shareholders		**(1)**	(2)
Net cash used in financing activities		**(3,885)**	(2,530)
Net (decrease) increase in cash and cash equivalents		**(676)**	271
Cash and cash equivalents at the beginning of the year		**1,245**	974
Cash and cash equivalents at the end of the year		**569**	1,245

General Director

V.A. Martirosyan

Chief Accountant

A.D. Kartashov

The accompanying notes on pages 7-64 form an integral part of these consolidated financial statements

Joint-Stock Central Telecommunication Company

Consolidated Statement of Changes in Equity for the Year Ended December 31, 2007

(in millions of Russian Roubles)

	Notes	Share capital: Preference shares	Share capital: Ordinary shares	Treasury shares	Retained earnings	Other reserves	Total equity attributable to equity holders of the parent	Minority interest	Total equity
Balance at December 31, 2005 (as previously reported)		1,725	5,175	(1)	1,940	–	8,839	6	8,845
Effect of correction of errors	2	–	–	–	1,793		1,793		1,793
Balance at December 31, 2005 (as restated)		1,725	5,175	(1)	3,733		10,632	6	10,638
Profit for the year (as restated)		–	–	–	2,871		2,871	3	2,874
Dividends to equity holders of the parent	31	–	–	–	(173)		(173)		(173)
Dividends of subsidiaries to minority shareholders		–	–	–				(3)	(3)
Balance at December 31, 2006 (as restated)		**1,725**	**5,175**	**(1)**	**6,431**		**13,330**	**6**	**13,336**
Change in fair value of available-for-sale investments		–	–	–	–	**11**	**11**	–	**11**
Profit for the year		–	–	–	**4,309**	–	**4,309**	–	**4,309**
Revaluation reserve arising on acquisition						**1**	**1**		**1**
Dividends to equity holders of the parent	31	–	–	–	**(520)**	–	**(520)**	–	**(520)**
Dividends of subsidiaries to minority shareholders		–	–	–	–	–	–	**(1)**	**(1)**
Balance at December 31, 2007		**1,725**	**5,175**	**(1)**	**10,220**	**12**	**17,131**	**5**	**17,136**

General Director ____________ V.A. Martirosyan

Chief Accountant ____________ A.D. Kartashov

ЦЕНТР ТЕЛЕКОМ

The accompanying notes on pages 7-64 form an integral part of these consolidated financial statements

1. General

Corporate Information

The consolidated financial statements of Joint-Stock Central Telecommunication Company and its subsidiaries (hereinafter, OJSC "CenterTelecom", "the Company") for the year ended December 31, 2007 were approved by the General Director and the Chief Accountant on May 29, 2008.

The parent Company, OJSC "CenterTelecom", was incorporated as an open joint stock Company in the Russian Federation.

The registered office of the Company is Russia, Moscow region, city of Khimki, Proletarskaya st., 23.

The Company provides telephone services (including local and intrazone telephone services), telegraph services, data transmission services, rents out communication and radio communication lines in the territory of the 17 Federal District of the Russian Federation.

As of December 31, 2007 open joint-stock Company "Svyazinvest", a parent Company controlled by the Russian Government, owned 50.69% of the ordinary voting stock of OJSC "CenterTelecom".

Principal subsidiaries are disclosed in Note 8. All subsidiaries are incorporated under the laws of the Russian Federation.

Liquidity and Financial Resources

The world economy is suffering the consequences of the global financial crisis in the mortgage lending market and the ensuing liquidity crisis. In the current unfavorable context, there are short-term risks related to both increase in interest rates on loans being raised and the availability of borrowings.

In 2007, the Company raised both short and long-term borrowings to finance its operations. Borrowings were primarily raised in the form of bank loans. The Company used leasing to finance part of its investment activities. In 2007, the Company repaid its liabilities in full and in due time.

As of December 31, 2007, the Company's current liabilities exceed its current assets by 5,844 (2006 – 4,036).

The key instrument used by the Company to maintain the adequate level of solvency is the availability of financing in the form of a revolving credit lines and overdrafts (as of January 1, 2008, available financing amounted to 2.2 billion Roubles).

In 2008, the Company expects to finance its operating and investing activities primarily out of proceeds from operational cash flow. New borrowings may be needed to meet early redemption of bonds due in September 2008. Part of the investment program is planned to be financed via leasing.

1. General (continued)

Liquidity and Financial Resources (continued)

In case of adverse changes in the financial market and increase in interest rates, the Company plans to undertake the following steps to maintain the adequate level of solvency:

- continue with the costs optimization program, including decrease in personnel costs (decrease in headcount and in variable portion of salaries and wages), optimization of repair and maintenance expenses, decrease in administrative and other expenses, minimization of costs related to sales and customer service through bundling of services and outsourcing;
- curtail the capital expenditure program or extend investment projects timeframes. The current contracts with vendors permit the Company to carry out these measures;
- increase the efficiency of working capital, including the decrease in the level and average age of accounts receivable, in particular by changing the existing contractual relations with customers, extend the terms of payables to vendors.

Based on above, the management does not expect the situation in the borrowings market to have a significant impact on the Company's ability to raise external financing in 2008.

The Company's Position in the Telecommunications Market

Establishment of New Tariffs

In conformity with current Russian laws regulating activities of natural monopolies, the Company is included in the register of natural monopolies in the area of communications. As a result, tariffs for a number of communication services provided by the Company are established by the Federal Tariff Service (hereinafter, “the Russian FTS”).

The Russian FTS sets tariffs for local telephone services using the economically justifiable costs method based on revenue required to cover the cost of services, part of other costs and standard profit. Yet, certain cross-subsidies remain with respect to local telephone services. In line with current legislation, cross-subsidies are partially maintained via state-regulated tariffs for intrazone telephone calls and via compensatory markup on tariffs for local and zonal call initiation services for intrazone, long distance domestic and international telephone calls.

The Company provides interconnection services and traffic transmission services to operators. The Company is included in the register of operators that have a prominent position in the public telecommunication network. Tariffs charged by the Company for interconnection and traffic transmission services are subject to regulation.

Ceiling tariffs have been established for the Company’s interconnection services, including tariffs for establishing and servicing interconnection points and traffic transmission services within the public telephone network. The Company has established tariffs for interconnection services, call initiation and termination services at the maximum level, except for the tariff for local call termination services at the Company's node and calls transit services.

A compensatory markup was established on tariffs for the Company's local and zonal call initiation services for long distance domestic and international telephone calls for the period through January 1, 2008.

1. General (continued)

The Company's Position in the Telecommunications Market (continued)

Universal Telecommunication Services

Starting the year 2005, Russian government guarantees to its citizens provision of universal telecommunication services that include local telephone services via payphones, access to the information and inquiry service system and availability of free-of-charge 24-hour emergency services calls, as well as data transmission services and access to the Internet using multiple access points, in hard-to-reach and geographically remote areas of the Russian Federation.

The Company has tendered for the right to provide universal telecommunication services, specifically telephone services via payphones, in its licensed areas. In 2007, the Company won 27 tenders and entered into 130 agreements with the Federal Telecommunications Agency, which set the terms and conditions of providing universal telephone services via payphones. As of December 31, 2007, the Company had installed in total 7,591 payphones pursuant to the above agreements.

Universal telecommunication services are subject to tariffs set by the Federal Telecommunications Agency and indicated in the agreements for provision of universal telecommunication services. Established tariffs for universal telecommunication services do not cover the costs the Company incurs to provide these services. The excess of economically justified costs incurred to provide universal telecommunication services over revenue received constitutes losses from provision of universal telecommunication services which are reimbursable from the Universal Service Fund (hereinafter, “the Fund”) .

Contributions to the Fund are taken to income of the federal budget under the established RF budget income classification code. The income and expense sections of a federal budget for the year include operators contributions to the Fund and amounts to be expensed from the Fund in line with the budgetary classification of the Russian Federation. Respectively, the Fund constitutes one of the state budget funds.

Losses are reimbursed by the Federal Telecommunications Agency subject to the procedure set by Government of the Russian Federation and stipulated by agreements for provision of universal telecommunication services. In first half of 2007, pursuant to the agreement terms, the Company was reimbursed for losses on a semi-annual basis. Starting third quarter 2007, losses have been reimbursed on a quarterly basis. The Federal Telecommunications Agency takes the final decision on the amount of such reimbursement based on the annual amount of losses after the Company submits the opinion of an independent auditor confirming that:

- losses claimed for reimbursement have been determined correctly;
- costs accounting has been performed correctly in compliance with industry legislation;
- the Company has made contributions to the Fund in full.

Information on the amount of reimbursed losses from universal telecommunication services is provided in Note 26.

National Project “Education”

In 2006-2007, the Company was involved in the implementation of the national project “Education”. As part of this project, the Company's branches connected to the Internet 11,201 educational institutions in the territory of the Central Federal District of the Russian Federation, including 6,649 educational institutions connected to the Internet in 2007.

1. General (continued)

The Company's Position in the Telecommunications Market (continued)

Under the agreement with OJSC RTComm.RU, the Company provided services that involved establishment of virtual communication channels from education institutions to access nodes and provision of these communication channels to OJSC RTComm.RU.

The Company's capital investments incurred to connect educational institutions totaled 704 in 2007 (2006 – 81). The Company's income from services provided under the national project "Education" amounted to 99 in 2007 (2006 – 15).

Plans to Digitalize the Company's Networks

At the end of 2007, 57.7% of local telephone networks were digitalized. Introduction of new electronic telephone exchanges and replacement of quasi-electronic and analog telephone exchanges by the electronic ones help the Company to improve the quality of provided services, broaden their range and meet industry requirements. The Company plans to digitalize its local telephone networks by the year of 2012.

2. Basis of Presentation of the Financial Statements

Statement of Compliance

These consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards ("IFRS").

Presentation of Financial Statements

These consolidated financial statements are prepared based on standalone financial statements of the parent and its subsidiaries and associates prepared under unified accounting policy.

The consolidated financial statements of the Company are presented in millions of Russian Roubles with all values being rounded off to the nearest million, except when otherwise indicated.

Basis of Accounting

These financial statements are prepared based on the statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation, with adjustments and reclassifications recorded for the purpose of fair presentation of ending balances, results of operations and cash flows in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except property, plant and equipment recognized at fair value, which was used as an deemed cost of the property, plant and equipment as of the date of transition to IFRS; available-for-sale investments were measured at fair value.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted those new/revised standards and interpretations mandatory for financial years beginning on or after January 1, 2007. Adoption of new and revised standards did not have significant effect on the financial statements of the Company; they did however give rise to additional disclosures.

2. Basis of Presentation of the Financial Statements (continued)

Changes in Accounting Policies (continued)

The changes in accounting policies result from adoption of the following new or revised standards and interpretations:

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 (amended 2005) "Presentation of Financial Statements - Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment".

The principal effects of these changes in policies are discussed below.

IFRS 7 "Financial Instruments: Disclosures"

The Standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. If necessary, the comparable information was reconsidered in accordance with new requirements. The changes did not have a material effect on the result of operations or financial position of the Company.

IAS 1 (amended 2005) "Presentation of Financial Statements - Capital Disclosures"

The Standard Requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in Note 35.

IFRIC 8 "Scope of IFRS 2"

IFRIC 8 "Scope of IFRS 2" requires applying IFRS 2 in all cases where the entity cannot identify some or all of the goods or services received, specifically, if the equity instruments are issued to cover the liability which appears to be less than the fair value of the equity instruments granted. This Interpretation did not have a material effect on the result of operations or financial position of the Company.

IFRIC 9 "Reassessment of Embedded Derivatives"

IFRIC 9 "Reassessment of Embedded Derivatives" establishes that the date to assess the existence of an embedded derivative is the date when the Company first becomes party to a contract, with reassessment made only if there is a change to the contract that significantly modifies the cash flows. This Interpretation did not have a material effect on the result of operations or financial position of the Company.

IFRIC 10 "Interim Financial Reporting and Impairment"

IFRIC 10 "Interim Financial Reporting and Impairment" requires the Company not to reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. This Interpretation did not have a material effect on the result of operations or financial position of the Company.

2. Basis of Presentation of the Financial Statements (continued)

IFRSs and IFRIC Interpretations Approved but not yet Effective

The Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 8 "Operating Segments";
- IAS 1 (amended 2007) "Presentation of Financial Statements";
- IAS 23 (amended 2006) "Borrowing Costs";
- IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions";
- IFRIC 12 "Service Concessions Arrangements";
- IFRIC 13 "Customer Loyalty Programmes";
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction";
- Amendments to IAS 32 and IAS 1 "Financial Instruments: Disclosure and Presentation";
- Amendments to IFRS 2 "Share-based Payment - Vesting Conditions and Cancellations";
- IFRS 3 (amended 2008) "Business Combinations";
- IAS 27 (amended 2008) "Consolidated and Separate Financial Statements".

IFRS 8 "Operating Segments"

IFRS 8 "Operating Segments" sets out requirements for disclosure of information about an entity's operating segments and also cancels the requirement to disclose the information about the entity's primary (products and services) and secondary (geographical areas in which it operates) segments. The Standard changes the procedure of assessment of segment financial information, requires an entity to use the financial data of the operating segments that was included in assessment made to provide financial information to the chief operating decision makers to decide how to allocate operational resources and in assessing performance. In addition, the standard requires to disclose the factors which were used to determine the operating segments. This Interpretation must be applied for annual reporting periods that commence on or after January 1, 2009.

IAS 1 (amended 2007) "Presentation of Financial Statements"

IAS 1 (amended 2007) "Presentation of Financial Statements" requires disclosure of changes in shareholders' equity separately from other changes in equity. It also requires disclosure, on the face of the statement of changes in equity related to transactions with equity holders only whereas all other changes in equity (i.e. income and expenses for the period recognized directly in equity), will be shown separately. In addition, the standard introduces the new statement of comprehensive income: it presents all items of income and expense recognized in the income statement, together with all other items recognized directly in equity. Changes in income and expenses recognized in equity may be reflected either in the statement of comprehensive income or in two separate statements: income statement and statement of comprehensive income. This Interpretation must be applied for annual reporting periods that commence on or after January 1, 2009. Currently, the Company is determining whether it will present changes in income and expenses recognized directly in equity in one statement or in two separate statements.

IAS 23 (amended 2006) "Borrowing Costs"

IAS 23 (amended 2006) "Borrowing Costs" eliminates the possibility to immediately recognize as borrowing costs interest expenses which relate to assets that necessarily take a substantial period of time to get ready for their intended use or sale. The standard must be applied for annual reporting periods that commence on or after January 1, 2009.

2. Basis of Presentation of the Financial Statements (continued)

IFRSs and IFRIC Interpretations Approved but not yet Effective (continued)

IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions"

IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions" determines whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and relates to the accounting treatment of share-based payment arrangements that involve two or more entities within the same group. This interpretation must be applied for reporting periods that commence on or after March 1, 2007.

IFRIC 12 "Service Concessions Arrangements"

IFRIC 12 "Service Concessions Arrangements" sets out general recognition principles for the obligations and related rights in service concession arrangements. This Interpretation must be applied for reporting periods that commence on or after January 1, 2008.

IFRIC 13 "Customer Loyalty Programs"

IFRIC 13 "Customer Loyalty Programs" requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. Therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are executed. This Interpretation must be applied for reporting periods that commence on or after July 1, 2008.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 "Employee Benefits". This Interpretation must be applied for reporting periods that commence on or after January 1, 2008.

Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation"

Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation" require some financial instruments and liabilities arising from the liquidation under certain conditions be classified as equity. It also sets out which information related to puttable financial instruments to be classified as equity is subject to disclosure. These amendments must be applied for reporting periods that commence on or after January 1, 2009.

Amendments to IFRS 2 "Share-based Payment - Vesting Conditions and Cancellations"

Amendments to IFRS 2 "Share-based Payment - Vesting Conditions and Cancellations" define the term "vesting condition" as either an explicit or implicit service requirement. Other conditions comprise "non-vesting conditions" which must be considered in assessing fair value of the equity instruments granted. If the rights related to the equity instrument were not vested due to the failure to meet the requirement which was a vesting condition to be fulfilled and its fulfillment was controlled by the entity or its counterparty, the equity instrument is recognized as cancelled. These amendments must be applied for reporting periods that commence on or after January 1, 2009.

2. Basis of Presentation of the Financial Statements (continued)

IFRSs and IFRIC Interpretations Approved but not yet Effective (continued)

IFRS 3 (amended 2008) "Business Combinations"

IFRS 3 (amended 2008) "Business Combinations" introduces some changes in accounting for business combinations which will affect the amounts of goodwill to be recognized and the financial results to be recognized in the period of acquisition and subsequent periods. This Standard must be applied for annual reporting periods that commence on or after July 1, 2009.

IAS 27 (amended 2008) "Consolidated and Separate Financial Statements"

IAS 27 (amended 2008) "Consolidated and Separate Financial Statements" requires to account for the movements in the parent's portion of a subsidiary's equity as an equity transaction and changes the requirements to accounting for losses incurred by the subsidiary as well as the requirements to accounting for the cease control over the subsidiary. This Standard must be applied for annual reporting periods that commence on or after July 1, 2009.

The Company expects that the adoption of the standards and interpretations listed above will have no significant impact on the Company's results of operation and financial positions in the period of initial application.

Corrections of Errors

In the course of the preparation of the financial statements for 2007, the Company identified certain prior period errors and made certain reclassifications to 2006 financial statements to confirm to the 2007 presentation. Respectively, the Company corrected financial statements amounts as of December 31, 2006 and for the year then ended and retained earnings as of December 31, 2005.

The major errors identified are following:

The Company transitioned to IFRS as of January 1, 2003 using the provisions of IFRS 1, "First time Adoption of International Financial Reporting Standards". The Company has applied an exemption permitted by IFRS 1 which allows an entity to measure property, plant, and equipment at the date of transition to IFRS at fair value and use that fair value as deemed cost. Management estimated that the carrying values of all of the Company's property, plant and equipment at the date of transition to IFRS were broadly comparable to their fair values. The management engaged an independent appraiser to support these fair values. The appraiser completed his evaluation in 2007. As a result, the reported carrying amounts of property, plant and equipment, depreciation and deferred revenue related to assets received free of charge were adjusted in accordance with the information provided by the independent appraiser (see Note 6). Deferred tax amounts were adjusted, respectively. Total effect on retained earnings as at December 31, 2005 was 1,793.

In 2006 the Company received services from IBM Eastern Europe/Asia related to the implementation of Amdocs Billing Suite. The Company did not record the related liability as of December 31, 2006. As a result, the cost of Amdocs Billing Suite as of December 31, 2006 was understated by 101. The financial statements of 2006 have been restated to correct this error. There is no effect of this error on the opening retained earnings as of December 31, 2005.

During 2006 the OJSC "Rostelecom" provided the Company with the particular traffic transmission services, while these services were not prescribed by agreement effective during that period. In 2007 the Company conducted negotiations with OJSC "Rostelecom" and concluded additional agreement for these services effective 2006. As these services were not initially prescribed in the agreement, the Company did not recognize the related expense in the consolidated income statement for 2006 and did not accrue a liability to OJSC "Rostelecom" in the balance sheet as of December 31, 2006. The financial statements of 2006 have been restated to correct this error. There is no effect of this error on the opening retained earnings as of December 31, 2005.

2. Basis of Presentation of the Financial Statements (continued)

Corrections of Errors (continued)

Effects of correction of errors and reclassifications on financial statements for the year 2006 are summarized in the table below.

Consolidated balance sheet as of December 31, 2006	As previously reported	Effect of the adjustments	As restated	Comments
Property, plant and equipment	29,599	3,521	**33,120**	Effect of recognition of the property, plant and equipment at fair value
Intangible assets	3,493	101	**3,594**	Capitalized implementation support
Other long term assets	150	3	**153**	
Long term advances paid	445	(30)	**415**	Capitalized implementation support
Deferred income tax assets	223	(223)	**–**	Effect of all adjustments
Trade and other receivables	2,455	(27)	**2,428**	Reclassification to other current assets
Other current assets	875	86	**961**	Reclass from accounts receivable, input VAT (implementation support and OJSC "Rostelecom" services)
Total assets	41,425	3,431	**44,856**	
Deferred revenue	772	(371)	**401**	Effect of recognition of the property, plant and equipment at fair value
Deferred income tax liabilities	–	683	**683**	Effect of all adjustments
Accounts payable and accruals	4,510	286	**4,796**	Payable for implementation support services, and for OJSC "Rostelecom" services
Total liabilities	30,923	589	**31,520**	
Retained earnings as of December 31, 2006	3,600	2,831	**6,431**	

2006 Consolidated income statement	As previously reported	Effect of the adjustments	As restated	Comments
Revenue	29,483	(25)	**29,458**	Effect of recognition of the property, plant and equipment at fair value
Depreciation and amortization	(5,516)	1,928	**(3,588)**	Effect of recognition of the property, plant and equipment at fair value
Services from operators	(1,828)	(158)	**(1,986)**	Expenses on Rostelecom services
Loss on disposal of property, plant and equipment and other assets	(82)	(241)	**(323)**	Effect of recognition of the property, plant and equipment at fair value
Other operating expenses	(3,744)	(44)	**(3,788)**	Reclassifications and corrections of errors
Other losses, net	(129)	11	**(118)**	
Profit before tax	2,622	1,470	**4,092**	
Income tax	(786)	(423)	**(1,218)**	Cumulative effect of correction of errors
Profit for the year	1,836	1,038	**2,874**	

As a result of the adjustments, net profit of the Company in 2006 increased by 1,038; retained earnings as at December 31, 2006 increased by 2,831; retained earnings as at December 31, 2005 increased by 1,793; earnings per share for the year 2006 increased by 0.49 Rouble/share.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company represent the financial statements of OAO "CenterTelecom" and its subsidiaries as of December 31 of each year. The financial statements of subsidiaries are prepared for the same reporting period as the financial statements of the parent Company based on unified accounting policies.

All inter-group balances, transactions, income and expenses resulting from operations within the Company and recognized in the assets are entirely eliminated.

Subsidiaries are fully consolidated as of the date of acquisition, being the date when the Company acquired control over the subsidiary, and continue to be consolidated until the date when such control ceases.

Minority interest represents the portion of profit or loss and net assets not held by the Company and are presented in the income statement and within equity in the consolidated balance sheet separately from parent shareholders' equity.

Acquisition of Subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Company's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Company's share of identifiable net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Increases in Ownership Interests in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are recognized in equity as of the transaction date as the purchase of the minority interests and are charged or credited to retained earnings and reserves.

3.2. Property, Plant and Equipment

3.2.1. Cost of Property, Plant and Equipment

Property, plant and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met. When each major inspection is performed, its cost is recognized as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. Major renewals and improvements are capitalized, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred. All other repairs and maintenance are charged to the statement of income when the expenditure is incurred.

Interest on loans and borrowings received to finance capital expenditures is capitalized to fixed assets during the period of their construction and implementation stage. Other interest expenses are charged to income statement.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognized as an expense (impairment loss) in the income statement. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

3. Summary of Significant Accounting Policies (continued)

3.2. Property, Plant and Equipment (continued)

3.2.2. Depreciation and Useful Life

Depreciation of property, plant and equipment is calculated on a straight-line basis.

The Company applies the following useful lives:

Property and equipment groups	Number of years
Land	Non-depreciable
Buildings and constructions	11-50 years
Switches and transmission devices	3-15 years
Vehicles and other	3-10 years

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

As of January 1, 2007, the Company's management reassessed the remaining useful lives of items of property, plant and equipment which resulted in the revision of the remaining useful lives of the certain items of property, plant and equipment.

Reassessment of the remaining useful lives was caused by the rapid replacement of telecommunication equipment and technologies, including new industry requirements to communication network digitalization. The Company actively introduces services and technologies related to the broadband access to Internet, engages in the upgrades of its fixed line network infrastructure and implements packet switching.

Effects of reassessment of the remaining useful lives of property, plant and equipment are presented in Notes 6.

The period of validity of the Company's operating licenses is significantly shorter than the useful lives used for depreciation of the cost of property, plant and equipment. Based on the Russian licensing legislation and prior experience, management believes that the operating licenses will be renewed without significant cost which would allow the Company to realize the cost of its property, plant and equipment through normal operations.

3.2.3. Assets received Free of Charge

Equipment transferred to the Company free of charge by its customers and other entities outside the privatization process is capitalized at fair value at the date of transfer. Transfers of equipment mainly relate to the rendering of future services to the transferee the equipment. In this case, the Company recognizes the deferred revenue in the amount of the fair value of the received property, plant and equipment and recognizes respective income in the income statement on the same basis that the equipment is depreciated.

3.3. Intangible Assets

3.3.1. Goodwill

Goodwill on an acquisition of a subsidiary is included in intangible assets.

Goodwill on an acquisition of an associate is included in the investments in associates.

Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

3. Summary of Significant Accounting Policies (continued)

3.3. Intangible Assets (continued)

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Company's primary or the Company's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (groups of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment loss can not be reversed in future periods.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3.3.2 Other Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Useful lives of the intangible assets are described in Note 7.

3.4. Borrowing Costs

The borrowing costs are capitalized by the Company as part of the cost of the asset when the costs are directly attributable to the acquisition, construction of a qualifying asset including construction in progress. Other borrowing costs are expensed as incurred.

3. Summary of Significant Accounting Policies (continued)

3.5. Associates

Associates are entities in which the Company generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method.

3.6. Joint Ventures

The Company recognizes its interest in a jointly controlled entity using the equity method.

3.7. Investments and Other Financial Assets

The Company's investments are classified as either financial assets at fair value revalued through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets.

When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

The Company determines the classification of its financial assets at initial recognition. At each financial year-end, the Company reviews the classification of financial assets when appropriate and is allowed by standards.

Purchases and sales of financial assets are recognized on the settlement date, which is the date that the investment is delivered to or by the Company.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate less any allowance for impairment. Amortized cost is determined inclusive discounts or bonuses, occurred while acquisition, commission expenses as well as transaction costs.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected losses that have not been incurred yet) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount is reduced by using the allowance. Loss is recognized in income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognized when they are assessed as uncollectible.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss. Investments are classified as held for trading if they are acquired for the purpose of selling in the near term.

3. Summary of Significant Accounting Policies (continued)

3.7. Investments and Other Financial Assets (continued)

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity are classified as held-to-maturity. All other investments, which were not classified to any of the three preceding categories, are available-for-sale investments. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

3.8. Inventories

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present condition.

The cost of inventories is determined on the weighted average basis.

3.9. Cash and Cash Equivalents

Cash comprises cash at banks and in hand and short-term deposits with an original maturity of three months or less.

3.10. Equity

Share Capital

Ordinary shares and non-cumulative non-redeemable preference shares are both classified as equity.

Treasury Shares

Treasury shares are stated at weighted average cost.

Minority Interest

Minority interest represents the interest in subsidiaries not held by the Company. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiaries at the date of the combination or the date when the subsidiary was established and the minorities' portion of movements in equity since the date of the combination or establishment.

Dividends

Dividends are recognized as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorized for issue.

3.11 Financial Liabilities

3.11. 1. Borrowings Received

Borrowings are initially recognized at the fair value of consideration received, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortized cost using the effective interest method; any difference between the fair value of the consideration received (net of transaction costs) and the redemption amount is recognized as an adjustment to interest expense over the period of the borrowings.

3. Summary of Significant Accounting Policies (continued)

3.11. 2. Financial Guarantees

Financial guarantees issued by the Company arise from a contract that requires a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognized initially at fair value adjusted for costs which directly relate to the issuance of the guarantees. Subsequently, financial guarantee obligations are estimated as the higher of best estimate of the expenditure required to settle the present obligation at the balance sheet date or the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

3.12. Leases

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of lease liability so as to achieve a constant rate of interest of the remaining balance of the liability. Finance cost is reflected directly in the income statement.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the statement of income on a straight line basis over the lease term.

3.13. Employee Benefits

3.13.1. Current Employment Benefits

Wages and salaries paid to employees are recognized as expenses in the current period. The Company also accrues expenses for future vacation payments.

3.13.2. Unified Social Tax

Under provisions of the Russian legislation, social contributions are made through a unified social tax ("UST") calculated by the Company by the application of a regressive rate (from 2% to 26%) to the annual gross remuneration of each employee.

3.13.3. Pensions and Other Post-Employment Benefit Plans

The Company provides defined benefit pension plan to its employees which requires contributions to be made to a separately administered fund. The Company also provides certain additional post-employment benefits and other long-service employees benefits of a defined nature such as lump-sum payments upon retirement and death and financial support to the Company's old age and disabled pensioners.

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

3. Summary of Significant Accounting Policies (continued)

3.13. Employee Benefits (continued)

The past service cost arises when the Company introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. The past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

3.14. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

3.15. Deferred Income Taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method.

Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Any such previously recognized reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

3. Summary of Significant Accounting Policies (continued)

3.16. Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Revenues from services are recognized in the period when services are rendered. Revenue from time-based for telephone calls and data transmission services depends on the volume of traffic processed for the period.

Local Telephone Calls, Including Universal Telecommunication Services

If the fixed payment scheme is applied, the revenue is represented by the subscription fee only. If the time-driven billing scheme is applied, the revenue depends on the duration of the telephone connections. If the combined billing scheme is applied, the revenue depends on the fixed payment and the duration of the telephone connections for the excess of the subscriber's calls over the monthly limit. Customers of the Company use the service via installed fixed telephones; the service could be also accessed by means of payphones. The Company recognizes revenues from local calls in the period when the service is rendered.

3.16. Revenue Recognition (continued)

Intrazone Telephone Services

Revenue from intrazone telephone services depends on duration of telephone connections. The Company recognizes revenue from intrazone telephone services in the period when the services are rendered.

Mobile Services

Revenues from mobile services arise primarily from airtime, subscription fees, value added services, outbound and inbound roaming. The Company recognizes revenues related to mobile telecommunications services in the period when the services are rendered.

Data Transfer and Telematics Services (Internet)

If the unlimited traffic scheme with the defined subscription fee is applied, the internet revenue is represented by the subscription fee only. If the combined tariff scheme is applied, revenue is determined by subscription fee as well as by traffic volume, The Company recognizes revenues from data transfer and telematics services in the period when the services are rendered.

Installation and Connection Fees

Installation and connection fees for local telephone services are paid in cash and by the contribution of fixed assets consisting of cable and duct, commonly referred to as the "last mile". Connection fees for fixed-line services received in cash are recognized when the installation and connection are complete. Installation and connection fees for data transfer services, telematics services, mobile services are recognized over the average contract period with the subscriber. For installation and connection fees contributed in the form of fixed assets, revenue is deferred and recognized as income on the same basis that respective fixed assets are depreciated.

Rent of Communication Channels

Channel rent revenues are derived from rent of intercity and international, digital, analogue, and telegraph channels. The Company recognizes revenues from the rent of communication channels in the period when the services are rendered.

3. Summary of Significant Accounting Policies (continued)

3.16. Revenue Recognition (continued)

Interconnection and Traffic Transmission Services

Services to operators include interconnection revenues from Russian operators and charges for interconnection points, revenues received from the local and inter-zone calls initiation from the Company's network/termination in the Company's network and in the networks of interconnected operators. The Company recognizes revenues from operators in the period when the services are rendered.

Fees on Assistance and Agency Services

Fees on assistance services include fees for services provided to long-distance operators under the assistance agreements. These services comprise subscribers billing and invoicing for long-distance calls, delivery of bills, collection of respective receivables and some other services. The Company recognizes revenues related to assistance services in the period when the services are rendered.

Revenues from Non-Telecommunication Services

These revenues primarily consist of revenues received from transportation and construction services, recreation services and sale of products and services provided by auxiliary units.

Dividend income is recognized when the dividends become due to the Company.

3.17. Foreign Currency Transactions

The consolidated financial statements are presented in millions of Russian Rubles (Roubles), which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the income statement as foreign exchange gains (losses). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The exchange rates as of December 31, 2007 and 2006 were as follows:

Exchange rates as of December 31	**2007**	**2006**
Russian Roubles to US dollar	**24.5462**	26.3311
Russian Roubles to Euro	**35.9332**	34.6965

4. Significant Accounting Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful life of Property, Plant and Equipment

The Company assesses remaining useful lives of property, plant and equipment no less than once a year at each reporting date. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and

4. Significant Accounting Estimates (continued)

Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss. As of December 31, 2007, the carrying amount of property, plant and equipment amounted to 36,332 (2006 – 33,120). More details are provided in Note 6.

Impairment of Property, Plant and Equipment

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate the existence of impairment. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Company recognizes separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions. More details are provided in Note 8.

Fair Values of Unlisted Available-for-Sale Investments

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models. These valuation techniques are based on assumptions that are not supported by observable market prices or rates. Management believes the estimated fair values resulting from the valuation technique which are recorded in the balance sheet and the related changes in the fair values recorded in the statement of changes in equity are reasonable and the most appropriate at the balance sheet date. As of December 31, 2007, the fair values of unlisted available-for-sale investments amounted to 37 (2006 – 27). More details are provided in Note 10.

Provision for impairment of accounts receivable

Provision for impairment is based on the historical data related to collectability of accounts receivable and solvency analysis of the most significant debtors. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December, 2007, allowances for impairment of accounts receivable have been created in the amount of 617 (2006 – 1,085). More details are provided in Notes 14 and 15.

Pension Obligations

The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels and, to a lesser extent, expected return on plan assets. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. As of December 31, 2007, net defined benefit obligations amounted to 2,641 (2006 – 2,527). More details are provided in Note 23.

4. Significant Accounting Estimates (continued)

Litigations

The Company exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These provisional estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to these estimates may significantly affect future operating results. As of December 31, 2007, no provision for litigations was recorded (2006 – 12). More details are provided in Notes 24 and 32.

5. Segment Information

OJSC "CenterTelecom" provides the telecommunication services on the territory of the Central region of the Russian Federation. The Company's structure is based on territorial units which service the corresponding parts of the Company's network. The Company's management considers that the Company operates in one geographical and business segment and evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Company as a whole.

6. Property, Plant and Equipment

	Land, buildings and constructions	Switches and transmission devices	Assets under construction	Vehicles and other	Total
Cost					
At December 31, 2005 (as restated)	20,686	14,895	1,617	3,352	**40,550**
Additions	–	–	5,629	–	**5,629**
Disposals	(86)	(288)	(296)	(121)	**(791)**
Put into operation	1,298	3,431	(5,223)	494	**–**
At December 31, 2006 (as restated)	**21,898**	**18,038**	**1,727**	**3,725**	**45,388**
Additions	**–**	**–**	**7,584**	**–**	**7,584**
Additions due to the acquisition of subsidiaries	**–**	**23**	**–**	**4**	**27**
Disposals	**(43)**	**(99)**	**(233)**	**(74)**	**(449)**
Put into operation	**1,345**	**5,161**	**(7,473)**	**967**	**–**
At December 31, 2007	**23,200**	**23,123**	**1,605**	**4,622**	**52,550**
Accumulated Depreciation and Impairment					
At December 31, 2005 (as restated)	**(4,148)**	**(3,214)**	**–**	**(1,422)**	**(8,784)**
Depreciation charge for the year	(1,323)	(1,556)	–	(601)	**(3,480)**
Depreciation on disposals	42	98	–	87	**227**
Impairment	(37)	(170)	–	(24)	**(231)**
At December 31, 2006 (as restated)	**(5,466)**	**(4,842)**	**–**	**(1,960)**	**(12,268)**
Depreciation charge for the year	(1,472)	(1,782)	–	(866)	**(4,120)**
Depreciation on disposals	23	70	–	77	**170**
At December 31, 2007	**(6,915)**	**(6,554)**	**–**	**(2,749)**	**(16,218)**
Net book value as of December 31, 2005 (as restated)	**16,538**	**11,681**	**1,617**	**1,930**	**31,766**
Net book value as of December 31, 2006 (as restated)	**16,432**	**13,196**	**1,727**	**1,765**	**33,120**
Net book value as of December 31, 2007	**16,285**	**16,569**	**1,605**	**1,873**	**36,332**

The above tables include plant and machinery leased under finance lease agreements as of December 31, 2007 and 2006, as follows:

	Land, buildings and constructions	Switches and transmission devices	Vehicles and other	Assets under construction	Total
Cost	2	4,833	106	96	5,037
Accumulated depreciation	–	(634)	(41)	–	(675)
Net book value at December 31, 2006	**2**	**4,199**	**65**	**96**	**4,362**
Cost	17	6,022	225	600	6,864
Accumulated depreciation	–	(841)	(58)	–	(899)
Net book value at December 31, 2007	**17**	**5,181**	**167**	**600**	**5,965**

Additions of PPE acquired under finance lease agreements amounted in 2007 to 2,292 (2006 – 1,369).

As of December 31, 2007, the cost of fully depreciated property, plant and equipment was 4,539 (2006 – 2,962).

6. Property, Plant and Equipment (continued)

The depreciation of property, plant and equipment charged in 2007 in the amount of 4,090 was recognized within Depreciation and Amortization in the consolidated income statement (2006 – 3,480), and in the amount of 30 was recorded as an increase in the value of intangible assets (2006 – 0).

As of December 31, 2007, the Company's property, plant and equipment in the amount of 462 (2006 – 188) was pledged as collateral under loan agreements and finance lease agreements.

As described in the Note 3, the Company reassessed remaining useful lives of the fixed assets as of January 1, 2007. Under the remaining useful lives as of January 1, 2007 prior to reassessment, the depreciation charge for 2007 would have been 3,627 as compared to 4,090 presented in income statement for 2007; loss from fixed assets disposal would have been 168 as compared to 165 presented in the income statement for 2007. The Company expects that this reassessment of remaining useful lives would have consistent impact on the depreciation charge of property, plant and equipment in the future periods over the remaining useful lives of respective categories of assets.

The Company did not identify any indicators of fixed assets impairment as of December 31, 2007.

7. Intangible Assets

	Goodwill	Licenses	Software	Customer list	Trade Mark	Total
Cost						
At December 31, 2005	995	148	2,929	94	36	**4,202**
Additions	–	6	748	–	1	**755**
At December 31, 2006 as restated	**995**	**154**	**3,677**	**94**	**37**	**4,957**
Additions	–	3	1,608	–	–	**1,611**
Additions due to the acquisition of subsidiaries	11	–	2	–	2	**15**
At December, 31 2007	**1,006**	**157**	**5,287**	**94**	**39**	**6,583**
Accumulated depreciation and impairment						
At December 31, 2005	(969)	(36)	(124)	(22)	(7)	**(1,158)**
Charge for the year	–	(22)	(70)	(12)	(4)	**(108)**
Impairment	(26)	–	–	(51)	(20)	**(97)**
At December 31, 2006	**(995)**	**(58)**	**(194)**	**(85)**	**(31)**	**(1,363)**
Charge for the year	–	(23)	(127)	(9)	–	**(159)**
At December 31, 2007	**(995)**	**(81)**	**(321)**	**(94)**	**(31)**	**(1,522)**
Net book value At December 31, 2005	**26**	**112**	**2,805**	**73**	**30**	**3,044**
Net book value At December 31, 2006 as restated	**–**	**95**	**3,484**	**9**	**6**	**3,594**
Net book value At December 31, 2007	**11**	**76**	**4,966**	**–**	**8**	**5,061**

7. Intangible Assets (continued)

Oracle E-Business Suite Software

As of December 31, 2007 software includes the costs of Oracle E-Business Suite acquisition and implementation with a carrying value of 2,714 (2006 – 1,931), including capitalized interest related to implementing Oracle E-Business Suite in the amount of 799 (2006 – 558). Interest capitalization rate is 10.98% (2006 – 13.55%).

The Company will commence amortizing the value of the mentioned software from the date of its implementation, over the useful life of the 10 years.

Full implementation of Oracle E-Business Suite software is expected to be completed by 2009. Until then the Company annually tests this software for impairment.

Amdocs Billing Suite Software

As of December 31, 2007 software also includes the costs of Amdocs Billing Suite acquisition and implementation with a carrying value of 1,445 (2006 – 1,361), including capitalized interest related to implementing Amdocs Billing Suite in the amount of 49 (2006 – 49). Interest capitalization rate is 0% (2006 – 6%).

This software was acquired with the purpose of implementing a unified billing system throughout the Company. The Company started implementing this software in December 2005 and plans to complete this implementation in 4-5 years.

The Company will start amortizing this asset from the date of software implementation proportionally to the value of implemented modules. Until then the Company annually tests this software for impairment.

Licenses

As of December 31, 2007 licenses mainly included licenses for providing the following types of services:
- local and intrazone telecommunication services;
- local telecommunication services by payphones;
- mobile services (GSM-900, GSM-1800, NMT-450, AMPS/D-AMPS);
- rent of channels;
- telematic services;
- data transmission services.

The useful life of licenses is determined individually for each license based on the terms and conditions of the license agreement. The useful lives have been determined to be 2 - 4 years.

Trade Mark

The trade mark was acquired by the Company through a business combination with CJSC Telecom-R and through obtaining control over CJSC CenterTelecomService. The Company determined this intangible asset as the asset with indefinite useful life.

Customer List

The customer lists were acquired through a business combination with OJSC RTS. The Company determined the useful life of the customer lists to be 4-8 years.

7. Intangible Assets (continued)

Amortization of Intangible Assets

The amortization of intangible assets charged in 2007 in the amount of 159 (2006 – 108) was fully recognized within Depreciation and amortization in the consolidated income statement.

Impairment Test of Intangible Assets

The Company performed impairment tests of goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use as of December 31, 2007. Intangible assets not yet available for use included Amdocs Billing Suite and Oracle E-Business Suite software. As a result of the impairment tests no impairment of these intangible assets as of December 31, 2007 was identified.

8. Consolidated Subsidiaries

The accompanying consolidated financial statements include assets, liabilities and results of operations of OJSC ”CenterTelecom” and its subsidiaries. Significant subsidiaries controlled by OJSC “CenterTelecom” are presented in the table below:

		Ownership, %		Voting shares, %	
Subsidiary	**Main activity**	**December 31, 2007**	**December31, 2006**	**December 31, 2007**	**December31, 2006**
CJSC “Vladimir Teleservice”“	Communication services	**100**	100	**100**	100
LLC “Mobilcom”	Communication services	**100**	100	**100**	100
LLC “Teleport Ivanovo”	Communication services	**100**	100	**100**	100
LLC “Telecom Terminal”	Repair and maintenance services	**100**	100	**100**	100
LLC “Telecom Stroi”	Construction services	**100**	100	**100**	100
OJSC RTS	Communication services	**100**	100	**100**	100
LLC “Tver Telecom”	Communication services	**85**	85	**85**	85
LLC “Svyaz–Service–Irga”	Communication services	**70**	70	**70**	70
LLC “Vladimirskii Taksofon”	Communication services	**51**	51	**51**	51
CJSC “Telecom Ryazanskoi oblasti”	Communication services	**50.9**	50.9	**50.9**	50.9
CJSC “Telecom-R”	Communication services	**100**	–	**100**	–
CJSC “CenterTelecomService”[1]	Communication services	**100**	–	**100**	–
CJSC “Operatoskii Tsentr” (in 2006 – CJSC “ATS”)	Communication services	**100**	100	**100**	100

All of the above companies are Russian legal entities registered in accordance with the legislation of the Russian Federation and have the same financial year as the Company.

[1] 25,1% of CJSC “CenterTelecomService” is owned by CJSC “Telecom-R”

8 Consolidated Subsidiaries (continued)

In December 2007 CJSC "ATS" was renamed into CJSC "Operatorskii Tsentr". After the transfer of the customer list to the Tver branch of OJSC "CenterTelecom" in 2007, the operating activity of CJSC "Operatorskii Tsentr" is limited to data transmission and telematic (Internet access) services.

In 2006 the Company owned 74.9% of the voting shares of CJSC "CenterTelecomService" with the rest of the interest in this entity owned by CJSC "Telecom-R". In accordance with the Charter of CJSC "CenterTelecomService", the Company and CJSC "Telecom-R" shared control over CJSC "CenterTelecomService", and, respectively, the Company classified its investment in CJSC "CenterTelecomService" as a joint venture.

In December 2007 the Company acquired 100 % of ordinary shares of CJSC "Telecom-R". The cost of acquisition including transaction costs amounted to 29. As the CJSC "Telecom-R" owns 25.1% of CJSC "CenterTelecomService" the Company obtained control over CJSC "CenterTelecomService" through control over CJSC "Telecom-R". As a result, the Company recognized goodwill in the amount of 11 as part of its intangible assets at December 31, 2007.

Following is the revenue and net profit of the subsidiaries acquired in 2007, as if the acquisition had been effected on January 1, 2007:

	2007
Revenue	**298**
Net profit	**34**

9. Investments in Associates and Joint Ventures

As of December 31, 2007 and 2006, the Company's investments in associates and joint ventures comprised the following:

		December 31, 2007		December 31, 2006	
Associate	**Activity**	**Voting shares, %**	**Carrying value**	**Voting shares, %**	**Carrying value**
Joint venture CJSC "CenterTelecomService"	Communication services	–	–	74.9	47
OJSC "Telecommunications The Company Rinfotels"	Communication services	**26**	**1**	26	1
CJSC "Teleross Voronej"	Communication services	–	–	50	0.4
Joint venture with the LLC "Topsnabinvest" and LLC "Bowling-Center"	Mobile services	–	–	30	15.4
Provision for impairment		–	–	–	(11.8)
Total			**1**		52

All of the above companies are Russian legal entities registered in accordance with the legislation of the Russian Federation and have the same financial year as the Company.

In December 2007 the Company acquired 100% of CJSC "Telecom-R" which owned 25.1% interest in CJSC "CenterTelecomService" and, respectively reclassified CJSC "CenterTelecomService" into subsidiaries (see note 8).

9. Investments in Associates and joint ventures (continued)

In 2007 the Company terminated the joint venture agreement with LLC "Topsnabinvest" and LLC "Bowling-Center" which was established for the purpose of producing, development, and commercial use of the community system of the radiotelephone network in CDMA standard in Ivanovo. In 2006 the Company created impairment provision for investment into this joint venture,

In 2007 the Company sold its shares in CJSC "Teleross Voronezh" for 1.

Movement in investments in associates and joint ventures for the years ended December 31, 2007 and 2006 is presented below:

	2007	2006
Investments in associates and joint ventures as of January 1 of the reporting period	**52**	46
Share of result of associates net of income tax and dividends received	**9**	21
Reclassification of investments	**(55)**	(4)
Disposal of associates	**(5)**	–
Impairment of investments in associates recognized in the current year	**–**	(11)
Investments in associates and joint ventures as of December 31 of the reporting period	**1**	52

10. Investments

As of December 31, 2007 and 2006, investments comprised the following:

	December 31, 2007	December 31, 2006
Long-term investments held-to-maturity	**444**	1,091
Long-term investments available-for-sale	**23**	27
Total long-term investments	**467**	1,118
Short-term part of long-term investments, held-to-maturity	**794**	842
Short-term investments, available for sale	**14**	–
Short-term investments, held to maturity	**15**	30
Total short-term investments	**823**	872
Total investments	**1,290**	1,990

As of December 31, 2007 short term and long term investments held-to-maturity are represented by promissory notes issued by OJSC "RTK-Leasing" and short term deposit with carrying value of 1,230 and 15 respectively (2006: 1,933 and 30, respectively).

As of December 31, 2006 and December 31, 2007 the promissory notes are presented at amortized cost measured using the effective interest rate of 10.12% – 16.78%.

The Rouble denominated short-term bank deposit represents an agreement signed with OJSC AKB "Svyaz-Bank" maturing on July 1, 2008. The minimum deposit balance under the agreement is 15. The annual interest rate is 5.5%.

10. Investments (continued)

As of December 31, 2007 and 2006, available-for-sale investments comprised the following:

The Company	December 31, 2007 Ownership interest	December 31, 2007 Fair value	December 31, 2006 Ownership Interest	December 31, 2006 Fair value
OJSC "Svyazintech"	**18**	**21**	18	21
CJSC "SK Kostars"	**–**	**–**	9	4
other	**0,09 – 9,3**	**2**	0,09 – 12,41	2
Total long-term investments, available for sale		**23**		27
CJSC "SK Kostars"	**9**	**3**	–	–
CJSC "Oskoltelecom"	**12,41**	**8**	–	–
CJSC "Teleservice"	**6,6**	**2**	–	–
OJSC "Komset"	**5,17**	**1**	–	–
Total short-term investments, available-for-sale		**14**		–
Total investments available-for-sale		**37**		27

11. Long-Term Advances Paid

As of December 31, 2007 and 2006, advances paid comprised the following:

	December 31, 2007	December 31, 2006 as restated
Long-term advances for investing activities	**190**	237
Advances to suppliers of software	**158**	181
Provision for impairment of advances for investing activities	**(10)**	(3)
Total	**338**	415

12. Other Long Term Assets

As of December 31, 2007 and 2006, other long term assets comprised the following:

	December 31, 2007	December 31, 2006 as restated
Long-term VAT receivable	**1**	141
Long-term loans issued	**8**	11
Other long-term financial assets	**–**	1
Total	**9**	153

As of December 21, 2007 and December 31, 2006 long-term loans issued are recorded at amortized cost measured using the effective interest rate of 17% (2006 – 17%).

13. Inventories

As of December 31, 2007 and 2006, inventories comprised the following:

	December 31, 2007	December 31, 2006
Cable and spare parts	**171**	164
Expendable material for ducts	**85**	59
Finished products and goods for resale	**54**	22
Furniture	**47**	42
Construction materials	**34**	40
Fixtures	**39**	38
Constituent parts	**36**	26
Other	**63**	68
Total	**529**	459

The amount of inventories recognized as an expense is 971 (2006 – 1,117). This expense is included into the line "Materials, repairs and maintenance, utilities" of the consolidated income statement.

Provision for impairment of inventories in the amount of 3 (2006 – 0) is presented within Other operating expenses of consolidated income statement.

14. Trade and Other Receivables

As of December 31, 2007 and 2006, trade and other receivables comprised the following:

	Total at December 31, 2007	Provision for impairment of receivables	Net at December 31, 2007
Individual customers	**1,219**	(122)	1,097
Government customers	**152**	(10)	142
Corporate customers	**433**	(67)	366
Interconnected operators	**1,070**	(133)	937
Social security authorities – tariff compensation related to providing benefits to certain categories of subscribers	**162**	(162)	–
Other receivables	**171**	(43)	128
Total trade and other receivables	**3,207**	(537)	2,670

	Total at December 31, 2006 as restated	Provision for impairment of receivables	Net at December 31, 2006 as restated
Individual customers	**1,064**	(105)	959
Government customers	**144**	(16)	128
Corporate customers	**348**	(66)	282
Interconnected operators	**1,102**	(102)	1,000
Social security authorities – tariff compensation related to providing benefits to certain categories of subscribers	**608**	(608)	–
Other receivables	**168**	(109)	59
Total trade and other receivables	**3,434**	(1,006)	2,428

14. Trade and Other Receivables (continued)

Trade and other receivables overdue but not impaired are presented below

At December 31, 2007	Total	Not overdue	Overdue but unimpaired, period overdue (days) <30	30-90	60-90	90-180
Individual customers	1,097	997	79	13	5	3
Government customers	142	117	18	4	2	1
Corporate customers	366	316	34	10	4	2
Interconnected operators	937	889	37	6	5	–
Other receivables	128	105	18	3	2	–
Total trade and other receivables	**2,670**	**2,424**	**186**	**36**	**18**	**6**

At December 31, 2006 as restated	Total	Not overdue	Overdue, but unimpaired, period overdue (days) <30	30-90	60-90	90-180
Individual customers	959	855	77	17	7	3
Government customers	128	100	19	6	2	1
Corporate customers	282	249	24	6	2	1
Interconnected operators	1,000	936	33	21	10	–
Other receivables	59	48	5	4	2	–
Total trade and other receivables	**2,428**	**2,188**	**158**	**54**	**23**	**5**

The Company invoices its government customers and corporate customers in Roubles on a monthly basis. The Company sends individual customers monthly invoices and substantially relies upon these customers to duly remit payments against these invoices. All customer payments are based upon tariffs, denominated in Roubles, in effect at the time the calls are made.

Receivables due from social security authorities as tariff compensation related to providing benefits to certain categories of subscribers amount to 5.1% of total trade receivables (2006 – 17.7%). These receivables originated prior to January 2005, when Article 47 of the Federal Law No. 126-FZ "Concerning Communications" dated July 7, 2003, came into force changing the procedure of providing telecommunication service benefits to individual customers. Prior to January 2005, those users of communication services that were eligible for benefits paid 50% of the service fees themselves and the remaining 50% were subject to compensation from the state budget.

In 2007 the Company legally enforced settlement from the federal budget of such outstanding receivables in the amount of 397 (2006 – 1,022). In December 2007 the Company assessed the probability of collecting receivables related to the provision of benefits to certain categories of subscribers taking into account possible legal enforcement. As of December 31, 2007 the provision for impairment of receivables amounted to 162.

Movement in the provision for impairment of receivables is presented in the table below:

	2007	2006
Balance at January 1	**(1,006)**	(2,213)
Recovery of impairment of receivables	**379**	972
Trade and other receivables written off	**90**	235
Balance at December 31	**(537)**	(1,006)

15. Other Current Assets

As of December 31, 2007 and 2006, other current assets comprised the following:

	Total at December 31, 2007	Provision	Net at December 31, 2007
Prepayments and advance payments	274	(4)	270
Settlements with personnel	9	–	9
VAT receivable	381	–	381
Other prepaid taxes	23	–	23
Deferred expenses	35	–	35
Other settlements and current assets	274	(76)	198
Total	**996**	**(80)**	**916**

	Total at December 31, 2006 as restated	Provision	Net at December 31, 2006 as restated
Prepayments and advance payments	135	(4)	131
Settlements with personnel	11	–	11
VAT receivable	500	–	500
Other prepaid taxes	18	–	18
Deferred expenses	143	–	143
Other settlements and current assets	233	(75)	158
Total	**1,040**	**(79)**	**961**

Movement in the provision for impairment of other current assets is presented in the table below:

	2007	2006
Balance at January 1	**(79)**	(62)
Provision charge	**(1)**	(17)
Balance at December 31	**(80)**	(79)

16. Cash and Cash Equivalents

As of December 31, 2007 and 2006, cash and cash equivalents comprised the following:

	December 31, 2007	December 31, 2006
Cash at banks and in hand:	**569**	**915**
Short-term deposits and promissory notes with maturity up to three months	**–**	**330**
Total	**569**	**1,245**

Cash at banks earns floating interest at rates based on the level of cash balances on the Company's bank accounts.

Short-term bank deposits earn interest at the rate 5.5% (2006 – 5.5%).

17. Significant Non-Cash Transactions

In 2007 the Company received equipment under lease agreements for the amount of 2,292 (2006 – 1,369).

The total amount of donated assets received in 2007 amounted to 10 (2006 – 7).
Non-cash transactions have been excluded from the consolidated cash flow statement.

18. Share Capital

The par and carrying values of the issued and fully paid ordinary and preference shares were as follows as of December 31, 2007:

	Number of shares authorized (thousand)	Treasury shares (thousand)	Number of shares outstanding (thousand)	Par value (thousand Roubles)	Carrying value (thousand Roubles)	Treasury shares (thousand Roubles)
As of December 31, 2005	2,104,000	–	2,104,000	631	1,219	–
Preference shares of type A	525,993	–	525,993	1,578	1,725	–
Ordinary	1,578,007	(240)	1,577,767	4,733	5,175	(1)
As of December 31, 2006	**2,104,000**	**(240)**	**2,103,760**	**6,311**	**6,900**	**(1)**
Preference shares of type A	525,993	–	525,993	1,578	1,725	–
Ordinary	1,578,007	(240)	1,577,767	4,733	5,175	(1)
As of December 31, 2007	**2,104,000**	**(240)**	**2,103,760**	**6,311**	**6,900**	**(1)**

The ordinary and preference shares have a par value of 3 Roubles per share. All authorized shares have been issued and fully paid.

The difference between the total par value and the total carrying value of the share capital represents the effects of inflation accumulated through January 1, 2003.

The ordinary shareholders are entitled to one vote per share.

18. Share Capital (continued)

The structure of share capital is as follows:

Shareholder	share %	Ordinary shares Number	Ordinary shares %	Preference shares of type A Number	Preference shares of type A %
Legal entities	**92.56**	**1,491,001,525**	**94.49**	**456,565,722**	**86.80**
including:					
- OJSC "Svyazinvest"	38.02	799,867,813	50.69	–	
- subsidiaries and associates	0.01	239,766	0.02	–	
including:					
- CJSC "Operatorsky Centr"	0.01	239,766	0.02	–	
- registered entities with the share over 1% of the charter capital, total	51.61	648,293,754	41.08	437,548,167	83.19
including:					
- CJSC "Depositarno-Clearing company" (nominal shareholder)	13.66	159,791,946	10.13	127,655,117	24.27
- CJSC "UBS Nominis" (nominal shareholder)	7.65	61,950,858	3.93	99,003,260	18.82
- CJSC Commercial Bank "Citibank" (nominal shareholder)	9.96	55,551,757	3.52	153,981,066	29.27
- CJSC "ING Bank (Eurasia) (nominal shareholder)	10.04	187,547,723	11.89	23,774,272	4.52
- Non-commercial partnership "National Depositary Center"	10.29	183,451,470	11.63	33,134,452	6.30
- other legal entities, total	2.93	42,600,192	2.70	19,017,555	3.62
Individuals, total	**7.44**	**87,005,308**	**5.51**	**69,427,100**	**13.20**
including:					
- employees	2.62	28,000,501	1.77	27,099,274	5.15
- other	4.82	59,004,807	3.74	42,327,826	8.05
Total	**100**	**1,578,006,833**	**100**	**525,992,822**	**100**

Treasury shares represents ordinary shares of the Company, held by the Company's subsidiary.

Preference shares of type A give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to reorganization or liquidation of the Company and amendments to the Company's charter which restrict the rights of preference shareholders. Preference shares have no rights of redemption or conversion but carry non-cumulative dividends per share of 10% of net profit for the year per statutory financial statements prepared under the Russian accounting principles. If the Company fails to pay dividends, or has no profits in any year, the preference shareholders have the right to vote on all issues within the competence of a general shareholders' meeting. Owners of preference shares have the right to participate in and vote on all issues within the competence of annual general shareholders' meetings following the annual shareholders' general meeting at which a decision not to pay (or to pay partially) dividends on preference shares has been taken. The annual amount of dividends on preference shares can not be less than dividends on ordinary shares. Thus, the owners of preference shares participate in earnings along with ordinary shareholders. Accordingly, the Company's preference shares are considered participating equity instruments for the purpose of earnings per share calculations (Note 30).

18. Share Capital (continued)

In case of liquidation, the Company's assets remaining after settlement with creditors, payment of preference dividends and redemption of the par value of preference shares is distributed among the preference and ordinary shareholders proportionately to the number of shares owned.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Company from net profit for the year as reported in the Company's Russian statutory financial statements. The Company reported net profit of 3,635 and 2,048 for 2007 and 2006, respectively.

On August 22, 2001, the Company registered the issue of Level 1 American Depository Receipts (ADR). Each depository receipt is equal to 100 ordinary shares of the Company. According to Order of the Federal Financial Markets Service of the Russian Federation No. 05-58/pz-i dated January 19, 2005, the Company was authorized to circulate 623,312,699 shares outside the Russian Federation in the form of ADR. As of December 31, 2007, the Company registered the issue of 454,600 ADR (as of December 31, 2006 – 420,989) and deposited 45,460,000 ordinary shares (as of December 31, 2006 – 42,098,900), which amounted to 2.88% (as of December 31, 2006 – 2.67%) of all issued ordinary shares.

The following table represents movement of registered ADRs for 2005-2007:

	ADR (quantity)	Ordinary Shares Equivalent (quantity)	Ordinary shares, %	Share capital, %
December 31, 2005	417,494	41,749,400	2.65%	1.98%
Increase in 2006	3,495	349,500		
December 31, 2006	**420,989**	**42,098,900**	**2.67%**	**2.00%**
Increase in 2007	33,611	3,361,100		
December 31, 2007	**454,600**	**45,460,000**	**2.88%**	**2.16%**

Currently ADR are traded on the following stock markets:

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

19. Borrowings

As of December 31, 2007 and 2006, outstanding borrowings comprised the following:

	Effective interest rate	Maturity date	2007	2006
Short-term debt				
Bank loans (Roubles)	11.5%-15.3%		–	34
Interest accrued on promissory notes (Roubles)			**72**	292
Interest accrued on bank loans (US dollars)			**59**	46
Interest accrued on bank loans (Roubles)			**4**	–
Interest accrued on bonds (Roubles)			**436**	403
Total interest accrued			**571**	741
Total short-term borrowings			**571**	775

19. Borrowings (continued)

	Effective interest rate	Maturity date	2007	2006
Long-term debt				
Bank loans (Roubles)	12.5%-13.2%	2008-2013	**1,424**	425
Bank loans (US dollars)	9.61%	2008-2010	**2,752**	2,952
Bank loans (Euros)	7.90%	2008-2011	**297**	353
Total bank loans			**4,473**	3,730
Bonds (Roubles)	8.48%-14.84%	2008-2012	**8,495**	8,495
Vendor financing (US dollars)	7%-9%	2010	**27**	24
Vendor financing (Euros)	6%-9%		**–**	29
Total vendor financing			**27**	53
Promissory notes (Roubles)	9.76%-12.16%	2008-2025	**3,778**	6,791
Loans from customers (Roubles)			**71**	78
Interest accrued on promissory notes (Roubles)			**424**	91
Interest accrued on loans from customers (Roubles)			**4**	3
Total interest accrued			**428**	94
Total long-term borrowings			**17,272**	19,241
Less: Current portion of long-term borrowings			**(4,078)**	(3,249)
Total long-term part of borrowings			**13,194**	15,992

As of December 31, 2007 the borrowings are repayable as follows:

Maturity date	Loans and borrowings	Bonds	Vendor financing	Promissory notes	Loans from customers	Total
within 2008	389	2,976	–	702	11	**4,078**
within 2009	1,175	5,519	–	1,404	4	**8,102**
within 2010	2,828	–	27	1,402	11	**4,268**
within 2011	81	–	–	686	19	**786**
within 2012	–	–	–	–	12	**12**
after 2012	–	–	–	8	18	**26**
Total	**4,473**	**8,495**	**27**	**4,202**	**75**	**17,272**

The carrying amount of the Company's borrowing are denominated in the followings currencies as of December 31, 2007 and 2006:

	December 31, 2007	December 31, 2006
Russian Roubles	**14,708**	16,612
US dollars	**2,838**	3,022
Euros	**297**	382
Total	**17,843**	20,016

19. Borrowings (continued)

Long-Term Debt

Bank Loans

Deutsche Bank

In October 2006 the Company raised a long-term US dollar-denominated loan of 115,000 thousand US dollars initially originated by Deutsche Bank AG (initial lender). After provision of the loan the originator issued credit notes linked to the loan. The loan matures in 2010. The loan bears interest at 8.34% (margin 3.20% and Midway rate 5.14%). As of December 31, 2007, the outstanding amount was 2,752. Accrued interest is payable on the last day of the period of interest which is 3 months. The loan is not secured.

Pursuant to the loan agreement, the Company is obliged to meet certain determined debt covenants based on statutory and IFRS financial statements. In case of these debt covenants violation, the margin is increased up to 3.50%.

In 2007, the Company met these debt covenants.

OJSC "Savings Bank of the Russian Federation"

In April 2007, the Company entered into a loan agreement with OJSC "Savings Bank of the Russian Federation" for a revolving credit line with a debt limit of 3,000. The loan matures on April 19, 2009. The Company pays the bank interest at 7.9% p.a. for using the loan. The loan is not secured.

OJSC "Vnesheconombank"

In 1995-1996, the Ministry of Finance of the Russian Federation provided long-term financing to the Company to purchase telecommunication equipment from various foreign vendors. Vnesheconombank acted as the agent on behalf of Government of the Russian Federation. The loan is denominated in Euros. In December 2006 the Company and Ministry of Finance signed an amicable agreement that was approved on March 12, 2007 by the Arbitration Court of the Moscow Region. The terms of the agreement became effective on December 27, 2006. In accordance with the agreement terms, the debt will be repaid in equal installments from December 31, 2006 through January 1, 2012. Interest is accrued at 2% and payable annually before or on December 31 of the respective year. Based on amicable agreement penalty interest accrued for untimely payments in the amount of 175 (EUR 5,068 thousand) was forgiven and included in the consolidated income statement for the year 2006 as Other losses, net. As of December 31, 2007, the outstanding liability was accounted for at amortized cost using the effective interest rate of 7.9%, and amounted to 297, including the short-term part in amount of 68.

In March 2007, the Company pledged property, plan and equipment amounting to 690 as collateral under this amicable agreement.

Bonds

On August 31, 2004, the Company issued 5,622,595 interest-bearing documentary non-convertible bearer bonds, Series 4, with a par value of 1,000 Roubles each. The bonds mature on August 21, 2009 and provide semiannual coupons. The coupon interest rate was determined at 13.80% p.a. The bonds issued offered a put option exercisable in November 2006; on this date the Company received no written notices from bond holders of intention to sell the bonds on terms indicated in the put option. Respectively, this amount is included in long-term liabilities as at December 31, 2007.

In June 2006, the Company registered 3,000,000 interest-bearing documentary non-convertible bearer bonds Series 5, with par value of 1,000 Roubles each. The bonds have 10 coupons. Payments under the first coupon begin on

19. Borrowings (continued)

Bank Loans (continued)

the 183-d day from the start of bonds placement, payments under the other coupons are made every other 182 days. The coupon interest rate for first four coupons was determined at 8.09%, other coupon interest rates would be determined 10 days prior to coupon payments date. Placement date is September 5, 2006. The bonds are redeemed as follows:

10% of the par value – on the 1274-th day from the placement date (02.03.2010);

20% of the par value – on the 1456-th day from the placement date (31.08.2010);

30% of the par value – on the 1638-th day from the placement date (01.03.2011);

40% of the par value – on the 1820-th day from the placement date (30.08.2011).

Proceeds from the bonds issue were used to refinance the Company's debt.

The bonds issued provide a put option to the bondholders exercisable at specified date. The put option date is September 4, 2008. Respectively, the outstanding amount of 2,976 was classified as current portion of long-term debt as at December 31, 2007.

Promissory Notes

OJSC "Promsvyazbank"

In September 2006, the Company entered into a promissory notes agreement with OJSC "Promsvyazbank" to finance its working capital. The promissory notes mature in 2009-2011 and bear effective interest rates of 10.17-11.26% p.a. The outstanding amount of the promissory notes as of December 31, 2007 was 2,679. The accrued interest as of December 31, 2007 amounted to 383 and was reported within long-term borrowings. The liabilities are not secured.

LLC "SV Capital Finance"

On December 18, 2006 the Company entered into promissory notes agreement with LLC "SV Capital Finance". The promissory notes mature in 2007-2011 and bear effective interest rates of 9.87-10.56% p.a. The outstanding amount of the promissory notes as of December 31, 2007 of 702 is reported as current portion of long-term borrowings, and the amount of 389 is reported as long-term borrowings. Interest accrued as of December 31, 2007 in the amount of 72 is reported as current portion of long-term borrowings and in the amount of 41 is reported as long-term borrowings. The liabilities are not secured.

Issuance of these promissory notes is a part of the plan developed by the Company in order to decrease the Company's finance charge on lease agreements signed with OJSC "RTC-Leasing". This plan includes the following transactions:

1) Purchase of promissory notes issued by OJSC "RTC-Leasing", the lessor. The nominal amount of these promissory notes was 2,270 and was equal to the lease payments under financial lease agreements with OJSC "RTC-Leasing" effective as of September 30, 2006 and due in the period from March 1, 2007 to September 30, 2011. The promissory notes issued by OJSC "RTC-Leasing" are payable one day before the next settlement of the lease obligation. Carrying value of the lessor's notes was determined using the market rate for the lessor's notes and was equal to 1,925. The promissory notes were purchased by the Company from LLC "SV Capital Finance" at their carrying value. The Company included these promissory notes in investments (Note 10).

2) Issue of promissory notes. The Company issued its own promissory notes with the carrying value of 1,925 which is equal to the carrying value of the lessor's notes. These notes were purchased by LLC "SV Capital Finance" at their carrying value. The promissory notes issued by the Company are payable one day before the next settlement of the lease obligation. The nominal amount of the Company's notes of 2,202 was determined using the market rate for the Company's notes payable.

These transactions do not affect the lease agreement terms, but effectively reduce the lease charges for the Company.

20. Finance Lease Obligations

The Company entered into various finance lease agreements for telecommunication equipment. As of December 31, 2007 and 2006, future minimum lease payments and their present value were as follows:

	December 31, 2007		December 31, 2006	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Current portion	2,193	1,697	1,550	1,137
Over 1 year to 5 years	2,357	1,927	1,694	1,396
Total minimum lease payments	**4,550**	**3,624**	**3,244**	**2,533**
Less amounts representing finance charges	(926)	–	(711)	–
Present value of minimum lease payments	**3,624**	**3,624**	**2,533**	**2,533**

These leases do not contain renewal, purchase option and sliding price clauses. The title for equipment shall transfer to the Company after the lessee fulfils all its obligations under the finance lease agreement.

In 2007 and 2006, the Company's primary lessors were OJSC ”RTC-Leasing”, CJSC “PetroLeasing-Management” and OJSC “VTB-Leasing”. In 2007, the effective interest rates on lease liabilities ranged from 13.61% to 33.73% p.a. (2006 – 13.61% to 33.51%).

OJSC ”RTC-Leasing” purchases telecommunication equipment from domestic and foreign suppliers and provides such equipment to the Company under finance lease agreements. Future minimum lease payments under agreements with OJSC “RTC-Leasing” as of December 31, 2007 amounted to 4,047 (2006 – 2,066), including the principal amount of 3,160 (2006 – 1,503) and the interest of 887 (2006 – 563).

Pursuant to agreements with OJSC “RTC-Leasing”, the lessor is entitled to adjust the lease payment schedule in the event of a change in certain economic conditions, in particular, a change in the refinancing rate of the Central Bank of the Russian Federation.

As of December 31, 2007 and 2006, finance lease obligations of 8 and 26, respectively, were nominated in foreign currency, primarily, in US dollars.

21. Accounts Payable and Accruals

As of December 31, 2007 and 2006, the Company's accounts payable and other current liabilities comprised:

	December 31, 2007	**December31, 2006 as restated**
Payables to suppliers and contractors for purchases and construction of property, plant and equipment	**1,130**	1,582
Payables to suppliers and contractors under current operations	**735**	742
Salaries and wages payable	**724**	729
Payables to OJSC “Rostelecom”	**521**	640
Advances received from subscribers	**516**	449
Payables to operators	**383**	493
Payables to suppliers and contractors for software purchases	**309**	91
Other accounts payable and current liabilities	**366**	70
Total	**4,684**	4,796

21. Accounts Payable and Accruals (continued)

Other accounts payable include the amount payable to the Center for Research of Telecommunication Development Problems, a non-commercial partnership, of 306 (refer to Note 34), which was settled in full in January 2008.

22. Taxes Payable

Current Taxes Payable

As of December 31, 2007 and 2006, the Company's current taxes payable comprised the following:

	December 31, 2007	**December 31, 2006**
Value added tax	**87**	187
Property tax	**171**	162
Unified social tax	**11**	9
Income tax payable	**3**	5
Other taxes	**15**	31
Total	**287**	394

Included in value added tax payable are 43 (2006 – 126) of value added tax that is payable to the tax authorities only when the underlying receivable is recovered or written off.

Long-Term Taxes Payable

Long-term taxes payable include overdue payables of various taxes which were restructured for the period over 10 years.

Long-term taxes payable are recorded at fair value at the date of restructuring and are subsequently recorded at amortized cost. The fair value was determined as net present value of future cash flows discounted at the rate of 13.4%.

23. Pensions and Other Employee Benefits

In additions to mandatory payments to the Russian Federation state pension scheme, the Company provides to its employees non-state pension using the post-employment benefits plans.

Defined Benefit Schemes

The majority of the employees are eligible for defined benefit schemes. The defined benefit pension plan provides old age retirement pension and disability pension. The plans provide for payment of retirement benefits starting from statutory retirement age which is currently 55 for women and 60 for men upon condition of continuant employment time for 15 years for average employees and 4 years of top executives. The amount of retirement benefits depends on the position of employee as of the date of retirement.

Non-government pension fund Telecom-Soyuz, which is related to the Company (Note 34), maintains the defined benefit pension plan.

The Company further provides other long-term employee benefits of a defined benefit nature such as lump-sum payments upon retirement and death. Also, the Company provides financial support of a defined benefit nature to its old age and disabled pensioners.

23. Pensions and Other Employee Benefits (continued)

As of December 31, 2007 there were 46,637 working employees participating in the defined benefit pension plan of the Company and 14,885 pensioners eligible to other post-employment benefit plans provided by the Company (as of December 31, 2006 – 56,317 and 15,892, respectively).

As of December 31, 2007 and 2006 the net liabilities of the defined benefit pension comprised the following:

	31.12.2007	**31.12.2006**
Present value of defined benefit obligation	**(2,884)**	(2,677)
Fair value of plan assets	**–**	51
Present value of unfunded obligation	**(2,884)**	(2,626)
Unrecognized past service cost	**14**	352
Unrecognized actuarial gains /losses	**229**	(253)
Net pension liability in the balance sheet	**(2,641)**	(2,527)

The amount of net expense for the defined benefit pension plan in 2007 and 2006 was as follows:

	2007	**2006**
Current service cost	**(139)**	(133)
Interest cost	**(186)**	(211)
Expected return on plan assets	**2**	9
Actuarial losses and gains recognized during the year	**75**	–
Past service cost – guaranteed part	**1**	–
Amortized past service cost – non-guaranteed part	**(127)**	(144)
Effect of curtailment or final settlement under the plan	**(1)**	20
Net expense for the defined benefit plan	**(375)**	**(459)**
Actual return on plan assets	**0**	16

The expenses on the defined benefit plan were included in Wages, salaries, other benefits and payroll taxes of the consolidated income statement.

Changes in the present value of the defined benefit obligation in 2007 and 2006 were as follows:

	2007	**2006**
Net defined benefit obligation at January 1	**(2,677)**	(3,022)
Interest cost on benefit obligation	**(186)**	(211)
Current service cost	**(139)**	(133)
Past service cost	**(3)**	134
Benefits paid	**62**	55
Liabilities extinguished on settlements	**251**	213
Actuarial (gains)/losses on obligation	**(192)**	287
Net defined benefit obligation at December 31	**(2,884)**	(2,677)

23. Pensions and Other Employee Benefits (continued)

Changes in the fair value of defined plan assets in 2007 and 2006 were as follows:

	2007	2006
Fair value of plan assets at January 1	**51**	229
Actuarial gains / (losses)	**(2)**	6
Expected return on plan assets	**2**	9
Benefits paid	**(62)**	(55)
Assets distributed on settlement	**(251)**	(213)
Contributions by employer	**262**	75
Fair value of plan assets at December 31	**–**	51

The Company expects to contribute 425 to its non-government benefit pension fund in 2008.

The overall expected rate of return on assets as at December 31, 2007 and 2006 is determined based on the market prices prevailing on these dates and the structure of the plan assets portfolio.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2007	2006
Equities of Svyazinvest Group companies	**2**	2
Other Russian equities	**13**	8
Russian municipal bonds	**28**	31
Bank deposits	**6**	1
Russian corporate bonds	**48**	33
Russian corporate promissory notes	**3**	25

As of December 31, 2007 and 2006 the principal actuarial assumptions of defined benefit pension plans were as follows:

	2007	2006
Discount rate	**6.6%**	7%
Expected return on plan assets	**Not applicable**	8.5%
Future salary increase	**9.2%**	9.2%
Rate used for calculation of annuity value	**6%**	6%
Increase in financial support benefits	**5%**	5%
Staff turnover	**9%**	7%
Mortality tables (source of information)	**USSR 1985/86**	USSR 1985/86

Amounts for the current and previous four periods are as follows:

	2007	2006 as restated	2005 as restated	2004 as restated	2003 as restated
Defined benefit obligation	(2,884)	(2,677)	(3,022)	(2,895)	(2,929)
Plan assets	0	51	229	(420)	(353)
Deficit	(2,884)	(2,626)	(2,793)	(3,315)	(3,282)
Experience adjustments on plan liabilities	(207)	398	(113)	608	(311)
Experience adjustments on plan assets	(2)	7	(18)	7	14

23. Pensions and Other Employee Benefits (continued)

The amount of experience adjustments is included into actuarial gains and losses and represents effects of differences between the previous actuarial assumptions and what has actually occurred. Experience adjustments on plan liabilities in the year 2007 and prior periods were caused primarily by non-recurring considerable excess of actual number of dismissed employees, as well as of the change in the amount of benefits set out in the terms of the plan, over initially projected changes in respective parameters in the long-term perspective.

24. Provisions

	Personnel dismissal	Tax provisions	Guarantees	Other provisions	Total
Balance at December 31, 2005	**–**	**78**	**73**	**–**	**151**
Accrued	35	12	–	7	**54**
Provision amortized	–	–	(26)	–	**(26)**
Unused amounts reversed	–	(78)	–	–	**(78)**
Balance at December 31, 2006	**35**	**12**	**47**	**7**	**101**
Accrued	324	–	–	–	**324**
Provision amortized	–	–	(22)	–	**(22)**
Used during the year	(35)	–	–	–	**(35)**
Unused amounts reversed	–	(12)		(7)	**(19)**
Balance at December 31, 2007	**324**	**–**	**25**	**–**	**349**

Analysis of total provisions	Personnel dismissal	Tax provisions	Guarantees	Other provisions	Total
Long-term	–	–	22	–	**22**
Short-term	35	12	25	7	**79**
Total provisions at December 31, 2006	**35**	**12**	**47**	**7**	**101**
Long-term	–	–	6	–	**6**
Short-term	324	–	19	–	**343**
Total provisions at December 31, 2007	**324**	**–**	**25**	**–**	**349**

Personnel dismissal plans

In March 2006 the Company adopted the Personnel Dismissal Program approved by the Board of Directors as a part of business activities efficiency improvement and focused on modification of the organizational structure and outsourcing of certain functions.

The Company accrued provision for termination payments to employees planned for dismissal according to the Program. Respective charge amounted to 324 and is recorded within Wages, Salaries, Other Benefits and Payroll Taxes of Consolidated Income Statement.

Guarantees

As of December 31, 2007 the Company guaranteed the credit line facilities provided mainly by OJSC "Savings Bank of the Russian Federation" to CJSC "RTC-Leasing", a lessor of telecommunication equipment. The total amount of loans guaranteed was 1,004 (2006 - 1,870). As of December 31, 2007 and 2006 the fair value of such guarantees issued amounted to 25 and 47, respectively.

25. Revenue

	2007	2006 as restated
Local telephone calls	**15,393**	13,614
Intrazone telephone services	**5,665**	3,689
Interconnection and traffic transmission services	**4,745**	5,028
Data transfer and telematics services (Internet)	**3,398**	2,419
Fees on assistance and agency services	**1,223**	1,475
Installation and connection fees	**746**	1,050
Mobile radio services, wire and radio broadcasting, television	**710**	742
Rent of communication channels	**309**	333
Mobile services	**278**	246
Telegraph services	**252**	157
Revenues from other services	**67**	148
Revenues from non-telecommunication services	**666**	557
Total	**33,452**	**29,458**

The Company identified revenues by the following major customer groups:

Customer groups	**2007**	**2006 as restated**
Individuals	**17,661**	14,788
Corporate customers	**7,258**	6,041
Government customers	**2,565**	2,195
Interconnected operators	**5,968**	6,434
Total	33,452	**29,458**

26. Other Operating Expenses

	2007	2006 as restated
Lease of premises	**622**	756
Agency fees	**444**	344
Fire and other security services	**398**	455
Universal service fund contributions	**319**	260
Contribution to non-commercial partnership "Center of Investigation of problems of telecommunication development"	**306**	186
Audit and consulting fees	**274**	115
Transportation services	**304**	165
Advertising expenses	**151**	98
Bank services fees	**145**	150
Post services	**144**	22
Buildings maintenance	**116**	121
Member fees, charity contribution, payments to labor unions	**99**	75
Cost of goods sold	**92**	88
Telecommunication equipments maintenance	**81**	72
Insurance	**80**	199
Education expenses	**64**	65
Civil defense expenses	**48**	50
Business trip expenses and representation costs	**39**	36
Fines and penalties	**4**	17
Reimbursement of losses on rendering universal telecommunication services	**(37)**	–
Other expenses	**390**	514
Total	**4,083**	3,788

Other expenses include legal services, billing and cash collection services, other third parties services and administration expenses, as well as other operating expenses.

Reimbursement of Losses on rendering Universal Telecommunication Services

In 2007 in accordance with the agreements concluded with the Federal Telecommunications Agency, the Company received reimbursement for losses on provision of universal telecommunication services in the following amounts:

- 15 - for services provided during first six months of 2007;
- 22 - for services provided in the third quarter of 2007.

In 2007 total loss for the year from provision of universal telecommunication services amounted to 73 and was confirmed by the independent auditing firm. The Company applied to the Federal Telecommunication Agency for reimbursement of this amount in full. The difference between the loss for 2007 and loss reimbursed for 9 months of 2007 will be reimbursed to the Company after approval of the Federal Telecommunications Agency is obtained. As of the date when these financial statements are authorized for issue, this approval has not been obtained.

27. Interest Expense, Net

	2007	2006
Interest income	**205**	59
Interest expense on loans, promissory notes, bonds	**(1,704)**	(2,100)
Interest expense on finance leases	**(473)**	(576)
Interest expense on vendor financing	–	(7)
Total	**(1,972)**	(2,624)

28. Gain on Subsidiaries, Associates and Other Investments, Net

	2007	2006
Gain on sale of investments	–	20
Impairment of investments	–	(11)
Dividend income	**3**	1
Total	**3**	10

29. Income tax

For the years ended December 31, 2007 and 2006, the income tax included:

	2007	2006 as restated
Income tax expense - current	**(1,579)**	(1,277)
Adjustment recognized for income tax charge of the prior periods	**125**	223
Total current income tax expense	**(1,454)**	(1,054)
Deferred income tax expenses related to the origination of temporary differences	**(353)**	(164)
Income tax expense for the year	**(1,807)**	(1,218)

Profit before taxation for financial reporting purposes is reconciled to income tax expense as follows:

	2007	2006 as restated
Profit before income tax	**6,116**	4,092
Statutory income tax rate	**24%**	24%
Theoretical tax charge at statutory income tax rate	**(1,468)**	(982)
Increase resulting from the effect of:		
Non-deductible expenses	**(339)**	(236)
Total actual income tax expense	**(1,807)**	(1,218)
Effective tax rate	**29.5%**	30.0%

29. Income tax (continued)

Deferred income tax assets and liabilities as of December 31, 2007 and 2006, and their movements in 2007 were as follows:

	December 31, 2005 as restated	Origination and reversal of differences as restated	Write-off	December 31, 2006 as restated	Origination and reversal of differences	December 31, 2007
Deferred tax assets:						
Accounts payable and accruals	156	101	–	257	35	**292**
Trade and other receivables	35	(18)	–	17	(9)	**8**
Pension liabilities	–	370	–	370	38	**408**
Finance lease obligations	9	84	–	93	342	**435**
Deferred income	60	(9)	–	51	(12)	**39**
Other		25	(8)	17	(5)	**12**
Total deferred tax assets	**260**	**553**	**(8)**	**805**	**389**	**1,194**
Deferred tax liabilities:						
Property, plant and equipment	(564)	(462)	–	(1,026)	(647)	**(1,673)**
Intangible assets	(142)	(244)	–	(386)	(103)	**(489)**
Borrowings	(65)	(11)	–	(76)	13	**(63)**
Other	–	–	–	–	(5)	**(5)**
Total deferred tax liabilities	**(771)**	**(717)**	**–**	**(1,488)**	**(742)**	**(2,230)**
Total net deferred tax liabilities	**(511)**	**(164)**	**(8)**	**(683)**	**(353)**	**(1,036)**

Movement in the net deferred tax liabilities for 2007 and 2006 is as follows:

	2007	2006 as restated
Deferred tax liabilities at January 1, net	**(683)**	(511)
Deferred tax charge	**(353)**	(164)
Write-off	–	(8)
Deferred tax liabilities at December 31, net	**(1,036)**	(683)

30. Earnings per Share

The Company has no financial instruments which may be converted into ordinary shares; therefore, the diluted earnings per share are equal to basic earnings per share.

	2007	2006 as restated
Profit for the year attributable to equity holders of the parent, thousand Rubles	**4,309,000**	2,871,000
Weighted average number of ordinary shares outstanding (thousand) and other instruments, thousand	**2,103,760**	2,103,760
Basic and diluted profit per share attributable to equity holders of the parent, Russian Roubles	**2.048**	1.365

31. Dividends Declared

In 2007 in accordance with the decision of the general meeting of shareholders dividends were declared in the amount of 0.1999621 Roubles per ordinary share and 0.38933 Roubles per preference share for the year ended December 31, 2006.

32. Contingencies and Operating Risks

Operating Environment of the Company

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Taxation

The existing Russian tax, currency and customs legislation allows for various interpretations and is prone to frequent changes. Interpretation by the Company's management of the legislation in place when applicable to the Company's transactions and activities may be challenged by the appropriate regional or federal authorities. Consequently, tax authorities may challenge transactions and accounting methods that they had never challenged before. As a result, significant additional taxes, penalties and fines may be accrued. It is not possible to determine amounts of constructive claims or evaluate probability of their negative outcome. Tax audits may cover a period of three calendar years immediately preceding the reporting one. Under certain circumstances, tax authorities may review earlier periods as well.

Management believes that as of December 31, 2007 its interpretation of the relevant legislation is appropriate and, hence, the probability of the Company's retention of its position with regard to tax, currency and customs legislation is high.

Insurance

During 2007 the Company did not maintain insurance coverage on a significant part of its property, plant and equipment, business interruption losses, or third party liability in respect of property or environmental damage arising from accidents relating to the Company’s property or the Company’s operations. Until the Company obtains adequate insurance coverage, there is a risk that losses resulting from destruction of certain assets could have a material adverse effect on the Company’s operations and financial position.

Legal Proceedings

Management has no capacity to evaluate the development of Russian legal system and it influence on the financial position of the Company and its future operations.

In the foreseeable future the Company’s performance can be influenced by legal system reforms. Current consolidated finance statements contain no adjustments with regard to these uncertainties.

During the year, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these consolidated financial statements.

32. Contingencies and Operating Risks (continued)

Legal Proceedings (continued)

In April 2006, tax authorities completed their audit of the Company's taxes for the years 2002 and 2003 and delivered a tax assessment in the total amount of 2,355, including penalties of 955. The most significant part of the assessment relates to taxation of settlements between operators. The Company has successfully appealed this tax assessment at first instance court as well as at appellation and cassation courts. In October 2007 the Company was assessed with another tax claim in the amount of 440, including penalties of 97, as a result of tax audit for the years 2004-2006. The Company has successfully appealed this tax assessment at the first instance court.

The management expects the final court decisions on these two tax assessments to be in favor of the Company. Respectively, no provision was created in the consolidated financial statements for the year 2007 with regard to these tax claims.

Licenses

Substantially all of the Company's revenues are derived from operations conducted pursuant to licenses granted by the Ministry of Information Technologies and Communications of the Russian Federation. These licenses expire in various years ranging from 2008 to 2012. Suspension or termination of the Company's main licenses or any failure to renew any or all of these main licenses could have a material adverse effect on the financial position and operations of the Company.

The Company renewed these licensees on a regular basis in the past and believes that it will be able to renew licenses without significant additional costs in the normal course of business.

The Government of the Russian Federation is in process of liberalization of telecommunications market for which additional licenses for rendering telecommunication services have been granted to a number of alternative operators. It is possible that the Company's future results of operations and cash flows could be materially affected by the increased competition in a particular period but the effect can not be currently determined.

33. Commitments

Operating Lease Obligations

As of December 31, 2007 and 2006 minimum lease payments under non-cancellable operating leases were as follows:

	2007 **Minimum lease payments**	**2006** **Minimum lease payments**
Current portion (less than 1 year)	**363**	311
From 1 to 5 years	**194**	80
Over 5 years	**383**	185
Total minimum lease payments	**940**	576

In 2007 operating lease expenses of the Company amounted to 622 (2006 - 756) and are presented in Other operating expenses of the consolidated income statement.

33. Commitments (continued)

Capital Expenditure Commitments

As of December 31, 2007 and 2006 the Company had commitments for capital expenditures for modernization and expansion of its network in the amount of approximately 655 and 400, respectively.

In 2008 the Company plans to make capital investments in the amount of 13,448, including 2,168 for purposes of its networks to meet industry requirements for telecommunication networks construction; 495 with regard to obligations on provision of universal services under agreements in effect as of December 31, 2007; 6,860 with regard to provision of universal services in accordance with agreements planned to be concluded in 2008; and 14 with regard to connection to the Internet of educational institutions in Russian Federation under the national project “Education”. The Company plans to finance purchase of equipment for provision of universal services primarily via leasing.

34. Balances and Transactions with Related Parties

The nature of the significant Company’s related party transactions in 2007 and 2006 is presented below.

Item	OJSC “Svyazinvest”	Companies under common control	Associates	State-controlled companies	Other
2006 (as restated)					
Provision of telecommunication services, interconnection and traffic transmission services	–	4,159	6	1,372	49
Rendering assistance and agency services	–	1,395	–	26	–
Other income	–	6	–	48	6
Purchase of telecommunication services, interconnection and traffic transmission services	–	323	–	43	62
Purchase of other services	–	42	–	–	404
Purchase of utilities	–	–	–	618	–
Rent expenses	–	–	–	162	–
Other expenses	–	–	–	518	1
Interest income	–	–	–	9	–
Interest expenses	–	–	–	652	–
Dividends receivable	–	–	–	–	2
Dividends payable	49	–	–	–	–
2007					
Provision of telecommunication services, interconnection and traffic transmission services	–	3,448	7	707	53
Rendering assistance and agency services	–	1,138	–	10	–
Other income	–	8	1	34	3
Purchase of telecommunication services, interconnection and traffic transmission services	–	668	–	16	70
Purchase of other services	–	27	–	13	1,034
Purchase of utilities	–	–	–	471	–
Rent expenses	–	–	–	144	–
Other expenses	–	–	–	619	5
Interest income	–	–	–	4	–
Interest expenses	–	–	–	44	–
Dividends receivable	–	–	–	–	2
Dividends payable	146	–	–	–	–
Loans received	–	–	–	26	–

34. Balances and Transactions with Related Parties (continued)

Purchase of other services primarily include the services received according to the agreements with OJSC “Svyazintek”, Non-state pension fund “Telecom-Soyuz”, non-commercial partnership “Centre for Research of Telecommunications Development Problems”.

Significant Company’s related party transactions balances outstanding as of December 31, 2006 and 2007 are detailed below.

	OJSC “Svyazinvest”	Companies under common control	Associates	State-controlled companies	Other
At December 31, 2006 as restated					
Trade and other receivables	–	757	1	143	158
Accounts payable	–	595	–	102	7
Borrowings received (including interest)	–	–	–	863	–
At December 31, 2007					
Trade and other receivables	–	758	1	123	104
Accounts payable	–	559	–	86	80
Borrowings received (including interest)	–	–	–	1,434	–

Borrowings received from state controlled companies primary consist of loans obtained from OJSC “Savings Bank of the Russian Federation” and OJSC “Vnesheconombank” in the amount of 1,124 and 297, respectively (Note 19).

Outstanding balances as of the year-end, except for the ones mentioned above from OJSC “Savings Bank of the Russian Federation” and OJSC “Vnesheconombank”, are unsecured, interest-free and the settlements occur in cash (or mutual offset of the balances with the same customer or supplier). There have been no guaranties provided or received with regard to any related party receivables or payables. For the year ended December 31, 2007, the Company has not recorded impairment of related parties’ receivables. This assessment is undertaken each reporting year through examining the financial position of the related party and the market in which the related party operates.

OJSC “Svyazinvest”

The parent entity of OJSC “CenterTelecom” – OJSC “Svyazinvest” - was wholly owned by the Russian Government until July 1997 when the Government sold 25% plus one share of the Charter Capital of “Svyazinvest” to the private sector.

Effectively operating telecommunication and data transmission networks are essential for Russia due to a number of reasons including economic, strategic and national security interests. Accordingly, the Government has and may be expected to continue to exercise significant influence over the operations of OJSC “Svyazinvest” and its subsidiary companies.

The Federal Service on Inspection in Mass Media, Telecommunication and Security of Social Heritage has control over the licensing of providers of telecommunications services.

OJSC “Rostelecom”

OJSC “Rostelecom”, a majority owned subsidiary of OJSC “Svyazinvest”, is the primary provider of domestic long distance and international telecommunications services in the Russian Federation.

34. Balances and Transactions with Related Parties (continued)

OJSC "Rostelecom" (continued)

The revenues associated with OJSC "Rostelecom" are represented by the proceeds from zonal initiation/ termination of calls from/ to the Company's networks and from/ to the networks of interconnected operators and revenues under the assistance agreement.

Expenses associated with OJSC "Rostelecom" include payments for services of calls termination to the networks of the other telecommunication operators and, if the call is initiated from mobile radiotelephone network, expenses for interconnection, as well as expenses for long-distance domestic and international telecommunication services provided to the Company.

As of December 31, 2007 and 2006 and the years then ended respective amounts included in the consolidated financial statements were as follows:

	2007	**2006**
Expenses on OJSC "Rostelecom" services	**578**	388
Revenues from services provided to OJSC "Rostelecom"	**3,425**	4,241
Revenues under assistance agreements with OJSC "Rostelecom"	**1,128**	1,318
Accounts payable to OJSC "Rostelecom" as of December 31	**521**	640
Accounts receivable from OJSC "Rostelecom" as of December 31	**729**	769

Transactions with Government Organizations

Government organizations are a significant element in the Company's customer base purchasing services both directly through numerous authorities and indirectly through their affiliates.

Government subscribers accounted for approximately 9.8% of gross trade accounts receivable as of December 31, 2007 (2006: 21.9%). Amounts outstanding from government subscribers as of December 31, 2007 amounted to 314 (2006: 894) and represent tariff compensation due from the state budget.

State-controlled companies accounted for approximately 3.8% of gross trade accounts receivable as of December 31, 2007 (2006: 4.2%). Amounts outstanding from state-controlled companies as of December 31, 2007 amounted to 123 (2006: 143).

Certain entities financed by the state budget are users of the Company's network. These entities generally lease lines of communications and are charged lower tariffs as approved by the Federal Antimonopoly Agency than those charged to other customers. In addition, the Government may by law require the Company to provide certain services to the Government in connection with national security and the detection of crime.

Entities with direct or indirect state control have no effect on the Company's transactions with other companies.

The Company is not able to disconnect a number of such companies which are considered to be state strategic entities under decisions of the RF government. Tariffs for such companies are established by the regulator at the same level as similar tariffs for commercial entities.

34. Balances and Transactions with Related Parties (continued)

Non-Commercial Partnership "Centre for Research of Telecommunications Development Problems"

The non-commercial partnership "Centre for Research of Telecommunications Development Problems" (hereinafter "the Partnership") is an entity controlled by OJSC "Svyazinvest" through its subsidiaries. The Company has an agreement with the Partnership under which it provides funding for industry research and administrative activities on behalf of the Company and of other subsidiaries and associates of OJSC "Svyazinvest".

Payments to the Partnership are included in other operating expenses in the consolidated income statement for the year ended December 31, 2007 and amounted to 306 (2006: 186).

OJSC "Svyazintech"

OJSC "Svyazintech" was founded by OJSC "Svyazinvest" subsidiaries which own among them 100% of its share capital, for implementation and further support of information systems, and coordination and management of Svyazinvest Group projects related to information technologies. In 2007 OJSC Svyazintech provided the Company with the services related to implementation and support of information systems, in particular, of the software Oracle E-Business Suite and Amdocs Billing Suite. In 2007 the Company incurred expenses on services provided by OJSC Svyazintech in the amount of 370 (2006 - 168). These expenses were capitalized as part of the carrying value of respective intangible asset.

NPF "Telecom-Soyuz"

The Company signed the agreement with non-state pension fund "Telecom-Soyuz" on the pension plans (Note 23 "Pension Plans for Employees"). Total payments from the Company to the Fund in 2007 amounted to 260 (2006 - 20).

Compensation to key management personnel

Key management personnel comprise members of the Management Board, the Audit Committee and Board of Directors of the Company, totaling 29 persons as of December 31, 2007 (2006: 27).

In 2007 compensation to members of the Board of Directors, Management Board and the Audit Commission of OJSC CenterTelecom included salary, bonuses and other compensations in the amount of 108 (2006 - 65). These expenses is presented in other operating expenses in the consolidated income statement.

In 2007 the Company made a contribution of 4 to the non-state pension fund (2006 - 0) for its key management personnel.

35. Financial Instruments

The Company's principal financial instruments comprise bank loans, bonds and promissory notes, finance leases, cash and cash equivalents. The main purpose of these financial instruments is to raise financing for the Company's operations. Short-term deposits are also actively used as a financial instrument to place available funds. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Company's financial instruments are foreign exchange risk, interest rate risk, credit risk and liquidity risk.

35. Financial Instruments (continued)

Capital Management Policy

The Company's capital management policy is primarily focused on increasing credit ratings, improving financial independence and liquidity ratios, improving structure of payables, and reducing cost of capital.

The main methods of capital management are profit maximization, investment program management, sale of assets to reduce debt burden, debt management, debt portfolio restructuring, use of different classes of borrowed funds.

The Company manages its capital through the financial independence ratio, net debt/shareholder’s equity and net debt/EBITDA ratios. The Company's policy is to maintain financial independence ratio within a range of 0.3-0.6, net debt/shareholder's equity within a range of 1.5-0.5, and net debt/EBITDA within a range of 2.5-0.9.

In the current year international rating agency “Standard&Poor’s revised the long term credit rating of the Company from “B” to “B+”, at the same time revised projection from “Stable” to “Positive”, and increased corporate credit rating based on national scale from “ruBBB+” to “ruA+”.

International rating agency “Fitch Ratings” also increased long term credit rating of the Company in foreign currency from “B” to “B+”, at the same time revised national rating of the Company from “BB+(rus)” to “BBB(rus). It also confirmed the short term credit rating in foreign currency on the “B” level.

Capital management is conducted at the level of separate significant legal entities of the Company’s group. The financial independence ratios, net debt/shareholder's equity, net debt/EBITDA are calculated using the statutory accounting data. The Company’s capital management policy was not changed in 2007 compared to 2006.

Since OJSC ”CenterTelecom” is a holding company, ratios, used in management of capital are calculated using the statutory accounting data. The financial independence ratio is calculated as shareholder's equity to the balance sheet total at the end of the period. Net debt/shareholder's equity is calculated as net debt to shareholder's equity at the end of the period. Net debt/EBITDA is calculated as net debt at the year-end to EBITDA for the period. The ratios determined based upon statutory financial statements for 2006 and 2007 years of OJSC CenterTelecom were as following:

	31.12.2007 г.	**31.12.2006 г.**
Financial independence ratio	**0,43**	0,36
Net debt */shareholder's equity	**0,99**	1,38
Net debt * /EBITDA	**1,73**	2,44

** Net debt – loans, borrowings (including promissory notes and bonds), commodity loans, lease obligations*

Foreign Exchange Risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect the Company’s cash flows. As a result, these fluctuations in exchange rates will be reflected in respective items of the Company’s income statement, balance sheet and/or statement of cash flows. Foreign currency denominated liabilities (Notes 19, 20, 21) give rise to foreign exchange risk exposure.

As of December 31, 2007 the Company’s liabilities in foreign currencies were 3,139 (2005 – 3,557), including liabilities denominated in US dollars 2,842 (2006 – 3,093) and Euro 297 (2006 – 464). As of December 31, 2007 the Company paid advances denominated in USD in amount of 74 (2006 – 102).

For the period from January 1, 2007 to December 31, 2007 exchange rate of the Russian Rouble to US Dollar increased by approximately 6.78% and exchange rate of the Russian Rouble to Euro decreased by 3.56%.

35. Financial Instruments (continued)

Foreign Exchange Risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and Euro exchange rates, with all other variables held constant, of the Company's profit before income tax (due to changes in the fair value of monetary assets and liabilities). No impact on the Company's equity is expected to occur with regard to changes in US dollar and Euro exchange rates.

	USD		EUR	
	Changes in exchange rate, %	**Effect on profit before income tax**	**Changes in exchange rate, %**	**Effect on profit before income tax**
2007	+10	(276)	+5	(15)
	-10	276	-5	15
2006	+10	(299)	+5	(23)
	-10	299	-5	23

According to current risk management policy, the Company performs overall evaluation of risks, taking into account the following:

- The level of risks impact on the financial ratios;
- The probability of risks.

The Company uses a qualitative criterium – the level of risk controllability - to define its risk response strategy.

Taking into account the structure of currency portfolio of the Company and the exchange rates of USD and Euro during 2007, the Company evaluated foreign exchange risk as not significant.

The Company performs the foreign exchange risk evaluation on regular basis. In case of evaluation of risk as significant, the Company would undertake the following measures to decrease the risk:

- Hedging, including the use of futures, forwards, options;
- Refinancing of borrowings nominated in the foreign currency.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates may negatively impact the Company's financial results. The Company is exposed to interest rate risk through debt service costs fluctuations of long-term borrowings. The majority of interest rates on long-term borrowings are fixed.

The methodology of evaluation of risk significance is the same as for foreign exchange risk evaluation. In case if risk is evaluated as significant, the Company would undertake the following measures to decrease the risk:

- Use of swaps floating rates;
- Refinancing of borrowings with the floating interest rates.

35. Financial Instruments (continued)

Interest Rate Risk (continued)

	< 1 year	1–5 years	> 5 years	Total
As of December 31,2007:				
Fixed rate:				
Short-term obligations	487	–	–	487
Long-term obligations	1,102	13,168	26	14,296
Finance lease obligations	1,697	1,927	–	3,624
Loans given	4	8	–	12
Short-term deposits	15	–	–	15
Floating rate:				
Short-term obligations	84	–	–	84
Long-term obligations	2,976	–	–	2,976

	< 1 года	1 – 5 лет	> 5 лет	Total
As of December 31,2006:				
Fixed rate:				
Short-term obligations	697	–	–	697
Long-term obligations	3,249	13,002	14	16,265
Finance lease obligations	1,137	1,396	–	2,533
Loans given	6	11	–	17
Short-term deposits	360	–	–	360
Floating rate:				
Short-term obligations	78	–	–	78
Long-term obligations	–	2,976	–	2,976

Liquidity Risk

The Company monitors its risk of a shortage of funds using a recurring liquidity planning tool. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds and finance leases.

As of December 31, 2007 and 2006 the Company's debt matures as following:

Maturity date	Loans and borrowings	Bonds	Vendor financing	Promissory notes	Loans from subscribers	Total
within 2008	421	4,022	–	812	11	**5,266**
within 2009	1,477	6,401	–	1,644	6	**9,528**
within 2010	3,146	–	31	1,843	15	**5,035**
within 2011	87	–	–	1,018	23	**1,128**
after 20011	–	–	–	–	42	**42**
Total	**5,131**	**10,423**	**31**	**5,317**	**97**	**20,999**

35. Financial Instruments (continued)

Maturity date	Loans and borrowings	Bonds	Vendor financing	Promissory notes	Loans from subscribers	Total
within 2007	349	1,019	30	3,404	26	**4,828**
within 2008	344	4,028	–	812	11	**5,195**
within 2009	345	6,401	–	1,644	6	**8,396**
within 2010	3,382	5	31	1,843	15	**5,276**
after 2010	123	6	–	1,018	66	**1,213**
Total	**4,543**	**11,459**	**61**	**8,721**	**124**	**24,908**

Distribution of borrowings by maturity is based on contractual undiscounted cash flows. These flows include the repayment of principal amount as well as interest payments and other additional payments to be made during respective periods.

In case when the liabilities were nominated in foreign currency, the exchange rate for the projected periods was taken equal to the rates as at the reporting date.

In case when the interest rate included floating part, the rate was set as equal to the interest rate as at the reporting date.

Calculations are made with the use of nominal interest rate. Effective interest rates used in determination of carrying values of liabilities are not used when calculating the projected interest.

Total undiscounted cash flows differ from the amount included in the balance due to difference in presentation requirements.

Credit Risk

Credit risk is the risk that a counter-party will fail to discharge an obligation and cause the Company to incur a financial loss.

Financial assets potentially subjecting the Company to credit risk consist primarily of trade receivables. Carrying amount of accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk.

The Company has no significant concentrations of credit risk due to significance of the client base and regular monitoring procedures over customers' and other debtors' ability to repay debts. A part of accounts receivable is represented by debts of state and other non-profit organizations. Recovery of these debts is influenced by political and economic factors; however, management believes that as of December 31, 2007 the Company has no significant impairment losses beyond the respective provision already recorded.

The Company places cash on bank accounts in a number of Russian commercial financial institutions. To manage credit risk, the Company places cash in different financial institutions, and the Company's management analyzes risk of default of these financial institutions on a regular basis.

Hedging
In 2007, the Company has not entered into any hedging arrangements in respect of its foreign exchange or interest rate exposures.

35. Financial Instruments (continued)

Fair Value of Financial Instruments

The fair value of the Company's financial instruments as of December 31, 2007 and 2006 is presented by types of the financial instruments in the table below:

Type of financial instrument	Category*	2007 Carrying amount	2007 Fair value	2006 Carrying amount	2006 Fair value
Financial assets					
Long-term investments, held to maturity	HMI	**444**	**444**	1,091	1,091
Long-term investments, available for sale	ASFA	**23**	**23**	27	27
Other long term assets	LR	**9**	**9**	153	153
Short-term accounts receivable	LR	**2,670**	**2,670**	2,428	2,428
Short-term investments, held to maturity	HMI, ASFA	**809**	**809**	872	872
Short-term investments, available for sale	ASFA	**14**	**14**	–	–
Cash and cash equivalents	LR	**569**	**569**	1,245	1,245
Total financial assets		**4,538**	**4,538**	**5,816**	**5,816**
Financial liabilities					
Long-term borrowings	FLAC	**4,137**	**4,137**	3,593	3,593
Long-term bonds	FLAC	**5,530**	**7,648**	8,506	11,029
Long-term promissory notes	FLAC	**3,500**	**3,500**	3,869	3,869
Long-term vendor financing	FLAC	**27**	**27**	24	24
Other long-term obligations	FLAC	**59**	**59**	55	55
Long-term finance lease obligations	FLAC	**1,927**	**1,927**	1,396	1,396
Accounts payable and accruals	FLAC	**4,684**	**4,684**	4,796	4,796
Short term borrowings	FLAC	**63**	**63**	80	80
Short-term bonds	FLAC	**436**	**436**	403	403
Short-term promissory notes	FLAC	**72**	**72**	292	292
Current portion of borrowings	FLAC	**394**	**394**	195	195
Current portion of bonds	FLAC	**2,982**	**3,005**	9	9
Current portion of promissory notes	FLAC	**702**	**702**	3,016	3,016
Current portion of vendor financing	FLAC	**–**	**–**	29	29
Current portion of finance lease obligations	FLAC	**1,697**	**1,697**	1,137	1,137
Total financial liabilities		**26,210**	**28,351**	**27,400**	**29,923**

35. Financial Instruments (continued)

The fair value of the Company's financial instruments as of December 31, 2007 and 2006 is presented by categories of the financial instruments in the table below:

	2007		2006	
Category of financial instrument	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Held-to-maturity investments	**1,253**	**1,253**	1,963	1,963
Available-for-sale financial assets	**37**	**37**	27	27
Loans and receivables	**3,248**	**3,248**	3,826	3,826
Total financial assets	**4,538**	**4,538**	5,816	5,816
Financial liabilities				
Liabilities carried at amortized cost	**26,210**	**28,351**	27,400	29,923
Financial guarantees	**25**	**25**	47	47
Total financial liabilities	**26,235**	**28,376**	27,447	29,970

* Financial instruments used by the Company are included in one of the following categories:

- HMI – held-to-maturity investments;
- ASFA – available-for-sale financial assets;
- LR – loans and receivables;
- FLAC – financial liabilities at amortized cost;
- FG – financial guarantees.

36. Events after the Balance Sheet Date

36.1 Dividends

The amount of annual dividend per share will be approved by general shareholders' meeting on June 25, 2008 based on recommendation of the Board of Directors.

The Board of Directors recommended the general shareholders` meeting to approve dividends for 2007 in the amount of 0.3547131 Roubles per ordinary share and 0.6910119 Roubles per preference share (2006 – 0.1999621 Roubles and 0.38933 Roubles, respectively). The total amount of dividends proposed comprises 560 per ordinary shares and 363 per preferred stock (2006 – 315 and 205, respectively). After approval by the general shareholders' meeting the annual dividends payable will be recognized in the financial statements for the year 2008.

36.2 Purchase of shares of CJSC "Systems of Gybrid Printing"

On March 27, 2008 the Board of Directors approved the purchase of 6,097,000 ordinary non-documentary shares of CJSC "System of Gybrid Printing" (9.38% of total share capital) for 610.

36. Events after the Balance Sheet Date (continued)

36.3 Tariffs for Telecommunication Services

According to industry regulations, the compensation markup on local and zone initiation services was canceled starting January 1, 2008. The Company expects significant decrease in respective revenues.
In accordance with the decision of Federal Tariff Service, tariffs for local telephone services for individual subscribers are reduced as follows effective January 1, 2008:

- the tariff for permanent use of a subscriber line was reduced by 25%;
- the tariff for provision of local telephone connection services, for certain tariff plans with fixed and combined payment scheme, was reduced by 50%.

36.4 Universal Telecommunication Services

In February 2008 the Company won additional tenders of Federal Communication Agency for the right to render universal telecommunication services by means of payphones in the territory of Ivanovo, Kaluga, Kostroma, Lipetsk, Moscow, Ryazan, Smolensk, Tambov, Tver, Tula and Yaroslavl regions.

36.5 Tax Claims

In March 2008 Arbitrary Court of Moscow region deemed unsubstantiated the tax claim of Interregional Inspectorate No.7 of the Federal Tax Service of the Russian Federation on the basis of the results of field tax review of the Company's operations for 2004 – 2006.

36.6 Obligations under finance leasing agreement

In may 2008 as a result of open tender the Company concluded finance lease agreement with OJSC “RTK-leasing” for equipment for provision of universal services. Under this agreement the cost of equipment amounts to 2,723, the lease payments amount to 4,026, the lease term is 54 months. Effective interest rate is approximately 20.74%.