



to agenda item 1

## BALANCE SHEET

as on **December 31, 2004**  
 Organization **JSC CenterTelecom (MRC)**  
 Taxpayer Identification Number **5000000970**  
 Type of business **telecommunications services**  
 Organizational-legal form/form of ownership **mixed**  
 Measurement unit **RUR in thousands**  
 Address: **6 Degtiarny Per., Building 2, Moscow, 125993, Russia**

	CODES
Form #01 by OCUD	<b>0710001</b>
Date (year, month, day)	<b>31.03.2005</b>
by OCPO	<b>01140111</b>
INN	<b>5000000970</b>
by OCVED	<b>64.20</b>
by OCOPF/OCFS	<b>48/31</b>
by OCEI	<b>384</b>
Date of approval	
Date of sending (receipt)	

ASSETS	Notes	Item code	Line code	At the reporting period start	At the reporting period end
1	1a	2	2a	3	4
<b>I. NON-CURRENT ASSETS</b>		110	110	49	114
Intangible assets					
Fixed assets		120	120	22,876,293	29,218,754
Capital investments		130	130	2,172,304	3,156,665
Income bearing investments in tangible items		135	135	1,877	1,439
Long-term financial investments including: investments in daughter companies		140	140	119,863	1,485,805
investments in affiliates/associates			141	91,135	1,464,753
investments in other organizations			142	11,319	4,124
other long-term financial investments			143	8,077	10,056
Deferred tax assets		145	145	9,332	6,872
Other non-current assets		150	150	51,866	171,699
<b>Total for section I</b>		190	190	1,642,860	3,054,998
				26,865,112	37,089,474

ASSETS	Notes	Item code	Line code	At the reporting period start	At the reporting period end
1	1a	2	2a	3	4
<b>II. CURRENT ASSETS</b>		210	210	914,935	1,086,032
<b>Inventories</b>					
including: raw material, auxiliaries and other similar items		211	211	600,348	640,430
expenses of production in progress (circulation expenses)		213	213	754	672

finished products and goods intended for resale	214	214	28,848	26,198
shipped products	215	215	472	288
deferred expenses	216	216	284,513	418,444
other inventories and expenses	217	217	,	,
VAT on purchased items	220	220	1,477,023	2,077,515
Accounts receivable (payments expected later than 12 months after the reporting date)	230	<b>230</b>	59,440	49,711
<i>including:</i>				
buyers and customer accounts	231	231	,	,
advance payments made		232	28,927	25,400
other debtors		233	30,513	24,311
Accounts receivable (payments expected within 12 months from the reporting date)	240	<b>240</b>	2,357,538	2,843,956
<i>including:</i>				
buyers and customer accounts	241	241	1,732,449	1,769,705
advance payments made		242	213,062	211,178
other debtors		243	412,027	863,073
Short-term financial investments	250	250	24,486	2,678
Cash and equivalents	260	260	1,015,270	1,369,112
Other current assets	270	270	941	1,283
<b>Total on section II</b>	290	<b>290</b>	5,849,633	7,430,287
<b>Grand total (sum of lines 190+290)</b>	300	<b>300</b>	32,714,745	44,519,761

<b>LIABILITIES</b>	<b>Notes</b>	<b>Item code</b>	<b>Line code</b>	<b>At the reporting period start</b>	<b>At the reporting period end</b>
<b>1</b>	<b>1a</b>	<b>2</b>	<b>2a</b>	<b>3</b>	<b>4</b>
<b>III. CAPITAL AND RESERVES</b>		410	410	631,200	631,200
Charter (legal) capital		420	420	6,332,963	6,327,621
Additional capital		430	430	31,560	31,560
Reserves		411	440	,	,
Shares bought-out from shareholders		470	460	8,073,420	7,725,851
Undistributed profit (not covered loss) of previous years		470	470	X	397,711
Undistributed profit (not covered loss) of the reporting year		490	<b>490</b>	15,069,143	15,113,943
<b>Total on section III</b>		510	<b>510</b>	6,727,159	12,237,350
<b>IV. LONG-TERM LIABILITIES</b>					
Loans and credits		511	511	3,963,900	3,728,372
<i>including:</i>					
credit facilities		512	512	2,763,259	8,508,978
loans		515	515	395,126	581,637
Deferred tax liabilities					

Other long-term liabilities	520	520	2,221,587	3,351,447
<b>Total on section IV</b>	590	<b>590</b>	9,343,872	16,170,434
<b>V. SHORT-TERM LIABILITIES</b>	610	<b>610</b>	3,988,610	6,590,118
Loans and credits				
including:				
credit facilities		611	3,283,624	4,160,134
loans		612	704,986	2,429,984
Accounts payable	620	<b>620</b>	3,829,369	6,156,059
including:				
suppliers and contractors	621	621	2,061,364	4,169,385
advance payments				
received	625	622	402,625	396,358
debt to employees	622	623	166,406	14,028
debt to government out-of-				
budget funds	623	624	79,671	14,821
debt in respect of tax and				
duties	624	625	520,210	745,128
other creditors	625	626	599,093	816,339
Debt to participants				
(founders) for income	630	630	19,253	20,382
payments				
Deferred revenue	640	640	464,498	460,921
Deferred expense				
provisions	650	650		7,904
Other short-term liabilities	660	660		
<b>Total on section V</b>	690	<b>690</b>	8,301,730	13,235,384
<b>GRAND TOTAL</b> (sum of	700	<b>700</b>	32,714,745	44,519,761
lines 490+590+690)				

**Summary of items accounted for using off-the-  
balance sheet accounts**

Item description	Notes	Item code	Line code	At the reporting period start	At the reporting period end
1	1a	2	2a	3	4
Rented fixed items		910	901	1,208,438	1,256,626
including those under					
leasing terms		911	911	846,547	725,203
Goods and tangible items					
accepted for safe storage		920	902	9,383	232,660
Goods accepted for					
commission		930	903	1,767	6,027
Debt of insolvent debtors					
written off as a loss		940	904	301,871	304,099
Security received in					
respect of payments and		950	905	2,752,925	8,631,267
obligations					
Security provided to other					
parties in respect of		960	906	9,134,084	13,593,075
payments and obligations					
Housing facilities					
depreciation		970	907	28,217	27,880
Depreciation of external					
improvement items and		980	908	1,010	1,462
other similar facilities					
Means of payment in					
respect of			909	60,807	120,720
telecommunications					

services					
<b>Summary of net asset value</b>					
<b>Item description</b>	<b>Notes</b>	<b>Item code</b>	<b>Line code</b>	<b>At the reporting period start</b>	<b>At the reporting period end</b>
<b>1</b>	<b>1a</b>	<b>2</b>	<b>2a</b>	<b>3</b>	<b>4</b>
Net assets			1000	15,533,641	15,574,864

**Chief Executive** \_\_\_\_\_ R. Amaryan  
(signature) (name)

**Chief Accountant** \_\_\_\_\_ R. Konstantinova  
(signature) (name)

# PROFIT AND LOSS ACCOUNT (INCOME STATEMENT)

for **the year of 2004**

Form #02 by OCUD

Date (year, month, day)

CODES

**0710002**

31.03.2005

Organization **JSC CenterTelecom (MRC)**

by OCPO

**01140111**

Taxpayer Identification Number

**5000000970**

INN

5000000970

Type of business

**telecommunications services**

by OCVED

64.20

Organizational-legal form/form of ownership

mixed

by OCOPF/OCFS

**48/31**

Measurement unit

**RUR in thousands**

by OCEI

**384**

Item description	Notes	Item code	Line code	Over the reporting period	Over the same period previous year
1	1a	2	2a	3	4
<b>I. Operating revenues and expenses on ordinary activities</b>					
Revenue (net) from sales of goods, products, works, services (net of VAT, excise duties and other mandatory payments)		010	010	24,963,116	20,890,007
including from sales of telecommunications services			011	24,603,464	20,564,872
Costs of sold goods, products, works, services		020	020	(19,702,108)	(15,587,379)
including: telecom services			021	(19,502,349)	(15,353,774)
<b>Profit (loss) from sales (line 010 less line 020)</b>		050	<b>050</b>	5,261,008	5,302,628
<b>II. OPERATING REVENUE AND EXPENSES</b>					
Interest to receive		060	060	67,411	4,287
Interest payable		070	070	(1,753,890)	(878,460)
Income from participation in other organizations		080	080	682	528
Other operating revenue		090	090	567,451	778,384
Other operating expenses		100	100	(2,202,303)	(1,878,750)
<b>III. NON-SALES REVENUE AND EXPENSES</b>					
Non-sales revenue		120	120	934,364	396,981
Non-sales expenses		130	130	(1,903,821)	(1,422,200)
<b>Pre-tax profit (loss) (lines 050+060-070+080+090-100+120-130)</b>		140	<b>140</b>	970,902	2,303,398
<b>Profit tax expenses (lines - 151+152-153), including:</b>			<b>150</b>	(574,245)	(816,739)
deferred tax liabilities		142	151	(186,727)	(162,434)
deferred tax assets		141	152	119,833	21,395
Current profit tax		150	153	(507,351)	(675,700)
<b>Operating profit (loss) (line 140- less line 150)</b>			<b>160</b>	396,657	1,486,659
<b>IV. EXTRAORDINARY INCOME AND EXPENSES</b>			170	1,351	3,097

Extraordinary income					
Extraordinary expenses			180	(297)	(7,607)
<b>Earnings (undistributed profit (loss) in the reporting period) (lines 160+170-less line 180)</b>		190	<b>190</b>	397,711	1,482,149
<b>FOR REFERENCE</b>					
Conditional profit tax expense/income			201	(233,270)	(551,845)
<b>Permanent tax liabilities</b>		200	202	(340,975)	(264,894)
Permanent tax assets		200	203		

Item description	Notes	Item code	Line code	Over the reporting period	Over the same period previous year
1	1a	2	2a	3	4
Basic profit (loss) per share			301	0.22683	0.84404
Diluted profit (loss) per share			302		

\* to be filled out in annual financial statements

### Explanation of some profit and loss items

Item description	Item code	Line code	Over the reporting period		Over the same period previous year	
			profit	loss	profit	loss
1	1a	2	3	4	5	6
Fines, damages and late payment charges accepted or for recovery of which relevant court (arbitration court) rulings were handed down		401	17,588	(39,481)	18,459	(43,402)
Profit (loss) of previous years		402	215,155	(136,218)	26,085	(73,064)
Indemnity of damages caused by non-performance or undue performance of obligations		403	5,779	(2,215)	15,622	(1,422)
Foreign currency translation adjustments		404	192,629	(178,769)	245,922	(306,755)
Allocations to assessed reserves		405	65,639	(1,048,144)	30,927	(561,889)
Written-off accounts receivable and payable		406	4,744	(6,587)	4,655	(676)

Chief Executive \_\_\_\_\_ R. Amaryan  
(signature) (name)

Chief Accountant \_\_\_\_\_ R. Konstantinova  
(signature) (name)

# STATEMENT OF CHANGES IN EQUITY

for **2004**

Organization **JSC CenterTelecom (MRC)**

Taxpayer Identification Number **5000000970**

Type of business telecommunications services

Organizational-legal form/form of ownership mixed

Measurement unit **RUR in thousands**

	CODES
Form #03 by OCUD	<b>0710003</b>
Date (year, month, day)	<b>31.03.2005</b>
by OCPO	<b>01140111</b>
INN	<b>5000000970</b>
by OCVED	<b>0</b>
by OCOFP/OCFS	<b>64.20</b>
by OCEI	<b>48/31</b>
	<b>384</b>

## 1. Changes in equity

Item description	Item code	Line code	Charter capital	Additional capital	Reserves	Undistributed profit (not covered loss)	Total
1	1a	2	3	4	5	6	7
<b>Brought over balance as of December 31, 2002</b>		<b>100</b>	631,200	6,405,534	27,838	6,986,004	14,050,576
<b>2003</b>							
Changes in the accounting policies		101	X	X	X	(225,278)	(225,278)
Balance of capital assets revaluation		102	X		X		
Other		103	X		X		
<b>Brought over balance as of January 1, 2003</b>		<b>104</b>	631,200	6,405,534	27,838	6,760,726	13,825,298
<b>Changes in capital items</b>		<b>200</b>		(72,571)	3,722	1,311,412	1,242,563
Foreign currency translations		201	X		X	X	
Net profit (loss) of the reporting year		202	X	X	X	1,502,563	1,502,563
Dividend		203	X	X	X	(260,000)	(260,000)
Allocations to reserves		204	X	X	3,722	(3,722)	
Additional share issues at the expense of own resources		205			X		
Increase of the nominal value of shares		206			X		
Changes in equity due to retirement of fixed assets		207	X	(72,571)	X	72,571	
Other		208					
<b>Increase in equity due to</b>		<b>210</b>					
additional share issues at the expense of shareholders		211			X	X	
reorganization of legal entity		212					
other		213					
<b>Decrease of equity due to:</b>		<b>220</b>				(1,828)	(1,828)

decrease in quantity of shares		221		X	X		
decrease in the nominal value of shares		222		X	X	X	
reorganization of legal entity		223					
other		224				(1,828)	(1,828)
<b>Brought over balance as on December 31, 2003</b>		<b>300</b>	631,200	6,332,963	31,560	8,070,310	15,066,033
<b>2004</b>							
Changes in the accounting policies		301	X	X	X	3,110	3,110
Balance of capital assets revaluation		302	X		X		
Other		303	X		X		
<b>Brought over balance as on January 1, 2004</b>	<b>100</b>	<b>304</b>	631,200	6,332,963	31,560	8,073,420	15,069,143
<b>Changes in capital items</b>		<b>400</b>		(1,266)		51,680	50,414
Foreign currency translations		401	X		X	X	
Net profit (loss) of the reporting year		402	X	X	X	397,711	397,711
Dividend		403	X	X	X	(347,297)	(347,297)
Allocations to reserves	110	404	X	X			
Additional share issues at the expense of own resources	121	405			X		
Increase of the nominal value of shares	122	406			X		
Changes in equity due to retirement of fixed assets		407	X	(1,266)	X	1,266	
Other		408					
<b>Increase in equity due to</b>		<b>410</b>		1,698			1,698
additional share issues at the expense of shareholders	121	411			X	X	
reorganization of legal entity	123	412					
other		413		1,698			1,698
<b>Decrease of equity due to:</b>		<b>420</b>		(5,774)		(1,538)	(7,312)
decrease in quantity of shares	132	421		X	X		
decrease in the nominal value of shares	131	422		X	X	X	
reorganization of legal entity	133	423					
other		424		(5,774)		(1,538)	(7,312)
<b>Balance as on December 31, 2004</b>	<b>140</b>	<b>500</b>	631,200	6,327,621	31,560	8,123,562	15,113,943

## 2. Reserves

Item description	Item code	Line code	Balance as on the start of the year	Received	Used/ restored	Balance as on the year start
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1	1a	2	3	4	5	6
<b>Reserves formed pursuant to effective legislation</b>						
Reserved funds						
data for 2003		601	27,838	3,722		31,560
data for 2004		602	31,560			31,560
<b>Reserves formed pursuant to founding documents:</b>						
Employee shareholding fund						
data for 2003		603				
data for 2004		604				
<b>Assessed reserves:</b>						
<b>Doubtful debt provisions</b>						
data for 2003		605	556,675	558,403	(141,911)	973,167
data for 2004		606	973,167	1,043,557	(90,310)	1,926,414
<b>Provisions to cover devaluation of financial investments</b>						
data for 2003		607		3,486		3,486
data for 2004		608	3,486	4,587	(2,564)	5,509
<b>Provisions for devaluation of tangible items</b>						
data for 2003		609				
data for 2004		610				
<b>Deferred expense provisions</b>						
Provisions for conditional obligations						
data for 2003		611				
data for 2004		612		7,904		7,904
<b>Provisions for contingent liabilities:</b>						
data for 2003		613				
data for 2004		614				

Chief Executive \_\_\_\_\_ R. Amaryan  
(signature) (name)

Chief Accountant \_\_\_\_\_ R. Konstantinova  
(signature) (name)

# CASH FLOW STATEMENT

			Form #04 by OCUD	CODES
for	2004	Date (year, month, day)	31.03.2005	0710004
Organization	JSC CenterTelecom (MRC)	by OCPO	01140111	
Taxpayer Identification Number	5000000970	INN	5000000970	
Type of business	telecommunications services	by OCVED	64.20	
Organizational-legal form/form of ownership	mixed	by OCOPF/OCFS	48/31	
Measurement unit	RUR in thousands	by OCEI	384	

Item description	Item code	Line code	Over the reporting year	Over the same period previous year
1	1a	2	3	4
<b>CASH BALANCE AT THE REPORTING YEAR START</b>		<b>010</b>	1,015,272	287,649
<b>CURRENT ACTIVITIES</b>				
<b>Cash receipts from current activities</b>		<b>020</b>	27,637,700	24,936,797
receipts from buyers, customers		021	26,947,663	23,675,859
other income		022	690,037	1,260,938
<b>Cash funds applied for:</b>		<b>030</b>	(24,042,527)	(22,595,407)
payments in respect of purchased goods, services, works, raw materials and other current assets	150	031	(8,739,927)	(8,392,944)
payroll expense	160	032	(6,212,575)	(4,957,666)
interest out payments	170	033	(1,594,987)	(858,626)
tax and levies settlements	180	034	(5,697,764)	(5,817,033)
other expense		035	(1,797,274)	(2,569,138)
<b>Net cash from current activities</b>		<b>040</b>	3,595,173	2,341,390
<b>INVESTMENT ACTIVITIES</b>				
<b>Cash receipts from investment activities</b>		<b>050</b>	2,467,523	41,423
proceeds from realization of fixed asset items and other non-current assets	210	051	37,275	27,800
proceeds from repayment (redemption) and sale of securities, realization of units, interests, and other financial investments	220	052	1,319,463	4,012
dividend received from interests	230	053	7,291	5,112
interest payments received	240	054	34,274	2,810
proceeds from repayments of loans granted to other organizations	250	055	1,051,959	423
other income from investment activities		056	17,261	1,266
<b>Cash funds applied for:</b>		<b>060</b>	(11,746,736)	(6,764,830)
acquisition and creation of fixed asset items and other non-current assets	290	061	(7,916,843)	(6,042,215)
acquisition of stock, units, interests	280	062	(1,495,152)	(75)
acquisition of debt instruments and other	300	063	(1,283,381)	(722,180)

financial investments				
granting loans to other organizations	310	064	(1,051,360)	(360)
other expenses for investment activities		065		
<b>Net cash from investment activities</b>	<b>340</b>	<b>070</b>	<b>(9,279,213)</b>	<b>(6,723,407)</b>
<b>FINANCIAL ACTIVITIES</b>				
<b>Cash receipts from financial activities</b>		<b>080</b>	15,979,661	11,176,972
credit and loan facilities received		081	15,858,597	10,980,472
other income from financial activities		082	121,064	196,500
<b>Cash funds applied for:</b>		<b>090</b>	<b>(9,941,781)</b>	<b>(6,067,334)</b>
repayment of loans and credits (less interest payments)		091	(8,386,110)	(5,296,360)
repayment of financial lease		092	(1,239,124)	(517,966)
dividend payments	170	093	(316,547)	(253,008)
other financial activity expenses		094		
<b>Net cash from financial activities</b>		<b>100</b>	6,037,880	5,109,638
<b>Net cash increase (decrease)</b>		<b>110</b>	353,840	727,621
<b>CASH BALANCE AT THE REPORTING PERIOD END</b>		<b>120</b>	1,369,112	1,015,270
Influence of exchange rate variations of foreign currency against RUR		130		
			2	(1,342)

Chief Executive \_\_\_\_\_ R. Amaryan  
(signature) (name)

Chief Accountant \_\_\_\_\_ R. Konstantinova  
(signature) (name)

# SUPPLEMENT TO THE BALANCE SHEET

as on

**December 31, 2004**

Organization **JSC CenterTelecom (MRC)**

Taxpayer Identification Number **5000000970**

Type of business telecommunications services

Organizational-legal form/form of ownership mixed

Measurement unit **RUR in thousands**

Form #05 by  
OCUD  
Date (year,  
month, day)

by OCPO

INN

by  
OCVED

by  
OCOPF/OCFS

by OCEI

**CODES**

**0710005**

**31.03.2005**

**01140111**

**5000000970**

**64.20**

**48/31**

**384**

## 1. Intangible assets

Item description	Item code	Line code	At the reporting year start	Received	Retired	At the reporting year end
1	1a	2	3	4	5	6
Intellectual property items (exclusive rights for results of intellectual property)	010	101	1,025	72	,	1,097
of which: of the patent owner for invention, industrial sample, usable model	011	102	,	64	,	64
of right owner for software, data bases	012	103	967	8	,	975
of owner of trade/service mark, location of good origin	014	104	58	,	,	58
other	015	105	,	,	,	,
Other	040	106	,	,	,	,
<b>Total</b>		<b>110</b>	1,025	72	,	1,097

Item description	Item code	Line code	At the reporting year start	At the reporting period end
1	1a	2	3	4
<b>Amortization of intangible assets, total</b>	050	<b>120</b>	976	983

including: of the patent owner for invention, industrial sample, usable model		121		1
of right owner for software, data bases		122	967	967
of owner of trade/service mark, location of good origin		123	9	15
other		124		

## 2. Fixed assets

Item description	Item code	Line code	At the reporting year start	Received	Retired	At the reporting year end
1	1a	2	3	4	5	6
Buildings		201	4,144,320	346,575	(13,149)	4,477,7
Line plant and transmission facilities		202	10,396,533	3,203,732	(13,920)	13,586,3
Machinery and equipment		203	19,705,084	5,168,256	(97,935)	24,775,4
Transportation vehicles		204	504,411	96,121	(7,121)	593,4
Computers and office equipment		205	939,228	304,688	(12,444)	1,231,4
Housing facilities		206	114,855	2,718	(11,503)	106,0
Land plots and nature utilization facilities		207	6,124	5,666		11,7
Other fixed asset types		208	474,471	97,479	(7,785)	564,1
<b>Total</b>		<b>210</b>	36,285,026	9,225,235	(163,857)	45,346,4

Item description	Item code	Line code	At the reporting year start	At the reporting year end
1	1a	2	3	4
<b>Fixed assets depreciation, total</b>	140	<b>220</b>	13,408,733	16,127,650
Including: <i>Buildings</i>		221	912,353	972,950

<i>Line plant and transmission facilities</i>		222	5,160,733	5,582,747
<i>Machinery and equipment</i>		223	6,401,744	8,251,499
<i>Transportation vehicles</i>		224	268,363	344,407
<i>Computers and office equipment</i>		225	420,129	629,710
<i>Other fixed asset types</i>		226	245,411	346,337
<b>Item description</b>	<b>Item code</b>	<b>Line code</b>	<b>At the reporting year start</b>	<b>At the reporting year end</b>
<b>1</b>	<b>1a</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>From line 210 fixed assets transferred for rent, total</b>		<b>230</b>	76,640	99,031
<i>Including:</i> Buildings		231	43,782	52,040
Line plant and transmission facilities		232	13,728	25,727
Machinery and equipment		233	4,327	5,637
Transportation vehicles		234	14,691	15,032
Other fixed asset types		235	112	595
<b>From line 210 fixed assets transferred for long-term storage</b>		<b>240</b>	253	11,016

<b>FOR REFERENCE</b>	<b>Item code</b>	<b>Line code</b>	<b>At the reporting year start</b>	<b>At the reporting year end</b>
<b>1</b>	<b>1a</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Result of fixed asset revaluation</b>		<b>250</b>		X
original (replacement) cost	171	251		X
depreciation	172	252		X
<b>Fixed assets received for rent, total:</b>		<b>260</b>	1,208,438	1,256,626

<i>Including:</i> Buildings		261	73,333	158,683
Line plant and transmission facilities		262	10,933	193,320
Machinery and equipment		263	789,551	783,210
Transportation vehicles		264	33,068	53,207
Other fixed asset types		265	301,553	68,206
Immovable items commissioned for services with state registration pending		270	750,157	954,996

### 3. Income bearing investments in tangible items

Item description	Item code	Line code	At the reporting year start	Received	Retired	At the reporting year end
1	1a	2	3	4	5	6
Property intended for lease		301				
Property provided under hire contract		302				
Other		303	2,168	41	(738)	1,471
<b>Total</b>		<b>310</b>	2,168	41	(738)	1,471

Item description	Item code	Line code	At the reporting year start	At the reporting year end
1	1a	2	3	4
Amortization of income bearing investments in tangible items		311	291	32

### 4. R&D, technology and design expenses

Item of R&D	Item code	Line code	At the reporting year start	Received	Written off	At the reporting year end
1	1a	2	3	4	5	6
Completed R&D works, with results being used for production or management purposes of the organization	310	400				

FOR REFERENCE	Item code	Line code	At the reporting year start	At the reporting period end
1	1a	2	3	4
Expenses for incomplete R&D, technology development and design	320	401		239
FOR REFERENCE	Item code	Line code	Over the reporting period	Over the same period previous year
1	1a	2	3	4
Expenses charged to ordinary activity		402		
Expenses on R&D failed to produce positive results and charged to non-sales expenses		403		

## 5. Financial investments

Item description	Item code	Line code	Long-term		Short-term	
			At the reporting year start	At the reporting period end	At the reporting year start	At the reporting period end
1	1a	2	3	4	5	6
Contribution to charter (contributed) capital of other organizations, total	510	501	110,531	1,478,933		
including: daughter and affiliated businesses	511	502	102,454	1,468,877		
Treasury municipal bonds and bonds issued by third parties	515	503				
Bills of exchange	520	504	163	163	37	37
Loans granted to other organizations	525	505	2,459		1,250	2,641
Certificates of deposit	530	506			23,199	
Other	535	507	6,710	6,709		
<b>Total</b>	<b>540</b>	<b>510</b>	<b>119,863</b>	<b>1,485,805</b>	<b>24,486</b>	<b>2,678</b>



<b>Of the total amount – financial investment having current market price:</b> Contribution to charter (contributed) capital of other organizations	550	511	3,486	5,978		
including: daughter and affiliated businesses	551	512				
Treasury municipal bonds and bonds issued by third parties	555	513				
Bills of exchange	560	514				
Other	565	515				
<b>Total</b>	<b>570</b>	<b>520</b>	<b>3,486</b>	<b>5,978</b>		
<b>FOR REFERENCE</b> <b>With reference to financial investment with current market price – change of value due adjusted valuation</b>						
	580	521	3,453	2,492		

## 6. Ordinary activity expenses (by costs items)

Item description	Item code	Line code	For the reporting year	For the previous year
1	1a	2	3	4
Material costs	710	601	(6,217,650)	(4,671,683)
Payroll costs	720	602	(6,387,314)	(5,168,993)
Social need allocations	730	603	(2,046,042)	(1,703,826)
Depreciation	740	604	(2,555,221)	(1,668,128)
Other expenses	750	605	(2,495,881)	(2,374,749)
<b>Total on costs items</b>	<b>760</b>	<b>610</b>	<b>(19,702,108)</b>	<b>(15,587,379)</b>
Change of the balance (increase [+], decrease [-]): of production in progress	765	621	(82)	503
deferred expenses	766	622	133,932	214,280

## 7. Security/collateral

Item description	Item code	Line code	At the reporting year start	At the reporting period end
1	1a	2	3	4
<b>Security received, total</b>		<b>710</b>	2,752,925	8,631,267
including:				
bank guarantees		711	11,340	,
third party surety		712	2,740,697	8,631,267
bills of exchange		713	250	,
pledged property		<b>714</b>	,	,
of which:				
fixed asset items		715	,	,
securities and other financial investments		716	,	,
other property		717	,	,
other		718	638	,
<b>Security provided, total</b>		<b>720</b>	9,134,084	13,593,075
including:				
third party surety		721	1,550,466	3,429,572
bills of exchange		722	598,799	2,040,000
pledged property		<b>723</b>	6,984,819	8,032,259
of which:				
fixed asset items		724	6,984,819	8,032,259
securities and other financial investments		725	,	,
other property		726	,	,
other		727	,	91,244

## 8. Government aid

Item description	Item code	Line code	For the reporting year	Over the same period previous year
1	1a	2	3	4
<b>Received budget funding in the reporting year, total</b>	910	<b>810</b>	5,478	20,557
including:				
Funds to finance capital expenses		811	5,478	4,745
Funds to finance current expenses		812	,	15,812

Item description	Item code	Line code	At the reporting year start	Received over the reporting period	Returned over the reporting period	At the reporting period end
1	1a	2	3	4	5	6
Credits from the budget, total	920	820				
Funds to finance capital expenses		821				
Funds to finance current expenses		822				

Chief Executive \_\_\_\_\_ R. Amaryan  
(signature) (name)

Chief Accountant \_\_\_\_\_ R. Konstantinova  
(signature) (name)

**EXPLANATORY NOTES  
to the Financial Statements  
of JSC CenterTelecom for 2004**

## **1. Contents**

<b>1. CONTENTS.....</b>	<b>21</b>
<b>2. GENERAL INFORMATION .....</b>	<b>22</b>
<b>3. ACCOUNTING POLICIES .....</b>	<b>27</b>
<b>4. COMPARATIVE DATA .....</b>	<b>34</b>
<b>5. ANALYSIS AND ASSESSMENT OF THE BALANCE SHEET STRUCTURE AND PROFIT PERFORMANCE .....</b>	<b>37</b>
<b>6. NOTES TO SIGNIFICANT BALANCE SHEET ITEMS.....</b>	<b>38</b>
6.1. Fixed assets (line 120 of the Form#1 – balance sheet) .....	38
6.2. Capital expenditures (item 130 of the balance sheet): .....	39
6.3. Financial investments (items 140 and 250 of the balance sheet) .....	40
6.4. Deferred tax assets (item 145 of the balance sheet) .....	49
6.5. Other non-current assets (item 150 of the balance sheet): .....	49
6.6. Inventories .....	50
6.7. VAT on purchased items (item 200 of the balance sheet) .....	50
6.8. Short-term accounts receivable due from purchasers and customers as on 31.12 2003 (item 241 of the balance sheet): .....	50
6.9. Other accounts receivable with payments expected within 12 months from the reporting date (item 243 of the balance sheet) .....	52
6.10. Charter (authorized) capital (item 410 of the balance sheet) .....	54
6.11. Company share repurchased from shareholders (item 440 of the balance sheet) .....	54
6.12. Distribution of profit .....	54
6.13. Dividends .....	55
6.14. Credits and loans (lines 510 and 610 of the balance sheet): .....	55
6.15. Deferred tax liabilities (item 515 of the balance sheet) .....	59
6.16. Other long-term liabilities (Item 520 of the balance sheet) .....	59
6.17. Accounts payable .....	60
6.18. Deferred revenues (item 640 of the balance sheet) .....	62
<b>7. NOTES TO SIGNIFICANT ITEMS OF THE PROFIT AND LOSS ACCOUNT .....</b>	<b>63</b>
7.1. Revenues from ordinary activities .....	63
7.2. Ordinary activities expenses.....	65
7.3 Other operating income and expenses:.....	66
7.4. Non-sales revenues and expenses: .....	67
7.5. Extraordinary income and expenses.....	69
7.6. Profit tax expenses .....	69
7.7. Net profit of the reporting period .....	72
7.8. Earnings per share .....	72
<b>8. AFFILIATED PERSONS.....</b>	<b>73</b>
<b>9. GOVERNMENT AID .....</b>	<b>85</b>
<b>10. THE COMPANY NET ASSETS.....</b>	<b>86</b>
<b>11. NON-GOVERNMENT PENSION INSURANCE.....</b>	<b>86</b>
<b>12. CONDITIONAL LIABILITIES .....</b>	<b>86</b>
<b>13. EVENTS AFTER THE REPORTING DATE.....</b>	<b>89</b>

## **2. General information**

*Joint-Stock Central Telecommunication Company, abbreviated name JSC CenterTelecom, Individual Unique Taxpayer Identification Number 5000000970, (henceforth “the Company”) was registered pursuant to Ordinance of the Chief of Administration of the Moscow region # 567-r of June 09, 1994, certificate of state registration #127 of June 20, 1994.*

*The Company was re-registered by the Moscow Region Registration Chamber on July 23, 1997, certificate of state registration of a legal entity # 50:10:00124.*

*According to the Federal Law On state registration of legal entities, the Company is registered by the inspectorate for the town of Khimki of the Ministry of Taxes and Duties (MNS) of Russia in the Unified State Register of legal entities on November 1, 2002, the main state registration number is 1025006174710.*

*Certificate of making an entry in the Unified State Register of legal entities of a legal entity registered before July 1, 2002 dated November 01, 2002 # 001494534.*

*The number of the Company’s employees as on December 31, 2004 was 67,432 (71,829 employees as on December 31, 2003).*

*The core activities of the Company according to licenses granted to it are:*

- *provision of local and intra-tariff band telephone service;*
- *provision of local, domestic long-distance and international telephone service using public payphone and public telecommunications offices;*
- *provision of local, domestic long-distance and international telephone service*
- *provision of cellular mobile communications service (using GSM-900, GSM-1800, NMT-450, AMPS/D-AMPS standards);*
- *provision for lease of physical circuits, channels and network paths, including broadcasting channels;*
- *provision of telematic (including e-mail, access to information resources, information and directory services, Telefax, Comfax service, Burofax, message handling service, voice-mail, voice message transmission, audio and video conference calls, Internet);*
- *data services;*
- *provision of radial area network (trunking);*
- *Intelligent Network (IN) services;*
- *telegraph services (including telegrams, AT/T (subscriber) telex);*
- *radio-telephone services;*
- *provision of wireless local telephone services based on CDMA;*
- *provision of mobile radio-telephone service;*
- *wireline broadcasting services;*
- *on-air transmission of TV programs;*
- *on-air transmission of sound programs and transmission of additional information;*
- *provision of wireless radio access;*
- *TV multicast over cable TV networks;*
- *personal paging services using compression of VHF FM channel;*
- *mobile radio service;*

- *broadband wireless access;*
- *TV and sound program broadcasting;*
- *testing and measurements of electric power installations and facilities, their parts and components in the course of installation, mounting, provisioning, operation and repair;*
- *publishing and printing activities;*
- *telecommunications service certification;*
- *implementation of quality management systems;*
- *arranging restoration of networks and services after faults and failures;*
- *marketing research;*
- *construction of buildings carrying Level 1 and 2 responsibilities according to state (public) standards;*
- *civil engineering surveys for construction of buildings carrying Level 1 and 2 responsibilities according to state (public) standards;*
- *design of buildings carrying Level 1 and 2 responsibilities according to state (public) standards*
- *operation of explosion hazardous production facilities;*
- *operation of fire hazardous production facilities;*
- *operation of weight lifting machinery and installations;*
- *operation of heat transfer and electric power grids;*
- *transportation of passengers using auto-vehicles;*
- *cargo transportation using auto-vehicles;*
- *technical maintenance and repair of transportation vehicles;*
- *operation of petrol filling stations;*
- *activities involving precious metals;*
- *gathering, processing and sale of non-ferrous scrap;*
- *operation of engineering systems in towns and populated settlements;*
- *special water utilization;*
- *underground resource utilization;*
- *comprehensive utilization of natural resources;*
- *environment protection services (works);*
- *educational activities;*
- *health and medical activities;*
- *pharmaceutical activities;*
- *trade;*
- *surveying;*
- *cartographic activities;*

- *implementation, repair and maintenance of fire protection/extinguishing devices and installation in building and facilities;*
- *cartography/map drawing activities;*
- *storage of crude oil, natural gas and oil products;*
- *realization of crude oil, natural gas and oil products;*
- *accommodation activities;*
- *hazardous waste handling;*
- *ensuring security of the Company activities;*
- *state secret protection activities;*
- *technical means of protection of confidential and proprietary information;*
- *implementation as required of plans to ensure robust operations and restoration of networks in case of emergency;*
- *metrological assurance, operation and repair of measurement devices;*
- *activities involving production and exchange of ethyl hydroxide, alcohol and alcohol containing substances;*
- *maintenance, repair, procurement and distribution of cash registers;*
- *research and development;*
- *external economic activities.*

***Registrar (registrator):***

Entity's name: Private Joint-Stock Company Registrator-Svyaz

Address: 15a Kalanchevskaya Street, Moscow, 107078, Russia

Mailing address: 15 A Kalanchevskaya Street, subscriber box 45, Moscow, 107078, Russia

License # 10-000-1-00258

Date of issue: 1.10.2002

Valid till: unlimited term

License issuing body: Federal Commission on Securities Market

***Auditor of the Company***

Full corporate name of the auditor: Private Joint-Stock Company Ernst&Young Vneshaudit

Abbreviated name: ZAO Ernst&Young Vneshaudit

Location: 77 Sadovnicheskaya Embankment, Building 1, Moscow, 115035, Russia

Mailing address: 77 Sadovnicheskaya Embankment, Building 1, Moscow, 115035, Russia

Telephone: +7 (095) 705-9700

Fax: +7 (095) 755-9701

The auditor license:

License No: E003246

Date of issue: January 17, 2003

Valid for: 5 years

License issuing body: Ministry of Finance of the Russian Federation

***The Board of Directors of the Company:***

*Chairman of the Board of Directors:*



*Valeriy N. Yashin, General Director, JSC Svyazinvest;*

*Members of the Board:*

*- Boris Dm. Antonyuk, First Deputy Minister of Information Technologies and Communications of the Russian Federation;*

*- Ruben A. Amaryan, General Director, JSC CenterTelecom, Deputy Chairman of the Board of Directors;*

*- Stanislav P. Avdiants, Executive Director, Director of Economic and Tariff Policies Department, JSC Svyazinvest;*

*- Vadim E. Belov, no information about current status;*

*- Alexander P. Gribov, Deputy Head of Division, Russian Federal Property Fund;*

*- Alexander V. Ikonnikov, Chairman of the Board, National Association of Independent Directors;*

*- Oksana V. Petrova, Deputy Head of Unit, Corporate Governance Department, JSC Svyazinvest;*

*- Elena V. Umnova, Director of Finance Department, JSC Svyazinvest;*

*- Grigoriy M. Ginger, Executive Director, Moscow representative office of NCH Advisors, Inc;*

*- Evgeniy V. Yurchenko, no information about current status.*

***The Management Board:***

*Chairman of the Management Board:*

*- Ruben A. Amaryan, General Director, JSC CenterTelecom;*

*Members of the Management Board of the Company:*

*- Aleksey A. Lokotkov, First Deputy General Director, Financial Director, JSC CenterTelecom;*

*- Arevshad A. Vartanyan, Deputy General Director for Information Technologies, JSC CenterTelecom;*

*- Maksim A. Pegasov, Deputy General Director, Technical Director, JSC CenterTelecom;*

*- Sergey V. Pridantsev, Deputy General Director, Commercial Director, JSC CenterTelecom*

*- Valeriy P. Sychev, Deputy General Director for Security and Information Protection Enforcement, JSC CenterTelecom;*

*- Ella M. Zhuravleva, Deputy General Director, Director for Personnel, JSC CenterTelecom;*

*- Raisa P. Konstantinova, Chief Accountant, JSC CenterTelecom;*

*- Tatyana N. Sotskova, Director of Legal Department, JSC CenterTelecom;*

*- Nikolay V. Mezhuev, Deputy General Director, Director of Moscow subsidiary, JSC CenterTelecom;*

*- Alexander I. Polnikov, no information about current status.*

***The Audit Commission of the Company:***

*- Irina V. Prokofieva, Director of Internal Audit Department, JSC Svyazinvest, Chairperson of the Audit Commission of JSC CenterTelecom;*

*- Konstantin V. Belyaev, Deputy General Director, JSC Svyazinvest;*

*- Natalia V. Ermolaeva, Deputy Head of Unit, Department of Economic and Tariff Policies, JSC Svyazinvest;*

*- Alexander V. Kachurin, Deputy Head of Unit, Finance Department, JSC Svyazinvest;*

- **Kirill V. Frolov**, Deputy Director, Head of Unit, Internal Audit Department, JSC Svyazinvest;
- **Lyudmila V. Buryanova**, First Deputy Chief Accountant, Director of Tax and Corporate Accounting and Reporting Department, JSC CenterTelecom;
- **Aleksey E. Kopiev**, Chief Expert, Internal Audit Department, JSC Svyazinvest.

### **3. Accounting Policies**

*The accounts of the Company are prepared on the basis of the following accounting policies:*

#### ***Basis for preparation***

*The accounts and financial statements of the Company are prepared in compliance with and according to timeline set forth in Federal Law #129-FZ of November 21, 1996 On accounting and other legal acts of the Russian Federation, governing book-keeping and financial reporting.*

#### ***Foreign Currency Denominated Assets and Liabilities***

*In accounting for business transactions conducted in foreign currencies the official exchange rate of the currency and the Russian rouble (RUR) effective on the transaction date was applied. Cash assets and liabilities valued in foreign currencies were posted to the accounts in amounts calculated according to the official rouble exchange rate set by the Central Bank of the Russian Federation effective on the reporting date (rubles per foreign currency unit).*

<b><i>Foreign currency</i></b>	<b><i>December 31, 2003</i></b>	<b><i>December 31, 2004</i></b>
<i>1 US dollar</i>	<i>29.4545</i>	<i>27.7487</i>
<i>1 Euro</i>	<i>36.8240</i>	<i>37.8104</i>
<i>100 Japanese Yen</i>	<i>27.5353</i>	<i>26.7509</i>

*Foreign currency translations over the year arisen during the year in relation to transactions with assets and liabilities, and their translation at the balance sheet date, are charged to profit and loss account and reflected in the profit and loss account as a part of non-sales revenues and expenses.*

*In the cash flow statement the ruble equivalent of the currency balance at the year's start and flow of foreign currency during the year were calculated based on the official exchange rate effective on December 31, 2004 and December 31, 2003 respectively.*

#### ***Short-term and long-term assets and liabilities***

*In the financial statement assets (liabilities) are treated as short-term, if their maturity term (period before redemption) does not exceed 12 months after the balance sheet date. All other assets and liabilities are treated in the financial statements as long-term ones.*

#### ***Intangible assets***

*Intangible assets include the Company trademark and exclusive intellectual property right: patents for inventions of usable models, computer codes, databases.*

*Intangible assets in the accounts are shown at the original value less amortization accrued over the usage period.*

*The original value of intangible assets procured in exchange for merchandise (items of value) different from cash funds is recognized as the value of transferred or to be transferred assets. The latter is determined based on the price at which the Company normally valued similar goods (value items) in comparable circumstances.*

*The value of intangible assets is written down by amortization charges calculated by straight-line method over the identified useful life period. Useful life of intangible assets is determined by a specially established commission and approved as required based on the expected term of usage during which the Company is going to derive economic benefits (revenue) from its usage.*

### **Fixed Assets**

*Fixed assets include buildings, facilities, equipment, transportation vehicles, computers, office equipment, land plots, machinery and other items with useful life of over 12 months, used for rendering services and product manufacturing, or for management purposes of the Company capable of bringing economic benefits.*

*Fixed assets items are recognized for accounting purposes at the original cost.*

*The original cost of fixed assets procured for payment is the actual cost of acquisition (construction).*

*The original value of fixed assets procured in exchange for merchandise (value items) different from cash funds is recognized as the value of transferred or to be transferred assets. The latter is determined based on the price at which the Company normally valued similar goods (value items) in comparable circumstances.*

*Fixed assets in the accounts are shown at the original (replacement) value less depreciation accrued over the whole usage period.*

*Fixed assets include immovable items commissioned for service and used before the stet registration of the ownership rights for such items.*

*Fixed assets depreciation was calculated by straight-line method according to rates determined on the basis of adopted useful life terms.*

<i>buildings used in production</i>	<i>-</i>	<i>5 – 100 years</i>
<i>transmission and other facilities</i>	<i>-</i>	<i>5 – 59 years</i>
<i>telecommunications equipment</i>	<i>-</i>	<i>3 – 30 years</i>
<i>transportation vehicles</i>	<i>-</i>	<i>3 - 10 years</i>
<i>computers and office equipment</i>	<i>-</i>	<i>3 - 10 years</i>
<i>other facilities</i>	<i>-</i>	<i>2 - 30 years</i>

*No depreciation was charged for land plots and housing facilities.*

*Fixed asset items valued at less than RUR10,000 per unit, as well as books, brochures, other publications were charged to production costs (sales costs) as they are released for production or put into operation using account 02 Fixed asset depreciation*

*Costs of all types of repair are included into costs of ordinary activities in the reporting period. No provisions were allocated to finance deferred costs of fixed asset repair.*

*Interest accrued on loans secured for financing acquisition (construction) of fixed assets before they adopted for accounting purposes is included in the original value of these assets. Interest accrued after the relevant fixed asset item was adopted for accounting purposes is reflected in the profit and loss account as a part of operation expenses.*

*Depreciation of fixed assets received in 2004 under capital lease (leasing) and accounted for as fixed assets of the Company was charged using straight line method based on the useful life period equal to the effective term of the relevant leasing contract. Depreciation of fixed assets received before 2004 under capital lease (leasing) and accounted for as fixed assets of the Company was charged using straight line method based on the usable life period and using an accelerated depreciation rate set forth by the relevant contract, but not exceeding 3.*

### **Financial investments**

*Financial investments for which their current market values were not determined are reflected on the balance sheet at their original cost.*

*Original value of financial investment:*

- *acquired at a price is defined as the Company's actual acquisition costs;*
- *acquired under contracts stipulating meeting obligations (payments) through non-cash funds is defined as the value of assets transferred by the Company;*
- *invested as contributions into the equity capital of daughter, affiliated and other entities is defined as a monetary value agreed by founders (members) of these entities.*

*Financial investments for which at the end of 2004 a steady significant decline of the value is recognized are shown on the balance sheet less allocated provisions for devaluation of financial investments. The amount of provisions is charged to the increase of operating expenses.*

*Financial investment for which organizers of trading in securities on stock market calculated current market values pursuant to applicable rules are shown on the balance sheet at the current market price at December 31, 2004 by adjusting the value of these investments. The adjustment amount was charged to the increase of operating expenses.*

*In the event of sale or other retirement of securities for which market values were not determined the retired issued securities are valued at the actual acquisition price of the first acquired securities (FIFO); non-issued retired securities are priced at the actual price of each piece of securities.*

#### ***R&D expenses, design and technology development expenses***

*Incomplete as on December 31, 2005 R&D, design and technology works are shown as a part of capital expenditure.*

*Incomplete R&D works are valued at the cost of expenses related to performance of the works.*

#### ***Inventories***

*Inventories (raw and other materials, goods) are accepted for accounting purposes at the accounting value, by which the following is meant:*

- *the price of the seller according to supply (sale-purchase) contract, if inventories are purchased for a price;*
- *the actual production costs, if an inventory item was produced in the Organization;*
- *present market value at the date of making an entry into the book, if an inventory item was received according to a deed of gift (free of charge), and left after retirement of fixed assets and other property;*
- *the value of assets transferred or to be transferred by the Organization pursuant to contracts stipulating non-monetary contribution (payment) in respect of obligations;*

*Transportation and procurement expenses and expenses to render materials to condition when they are usable, are posted in accounting books in account 16 Deviations in the cost of tangible items.*

*Goods in retail trading accounted for on account 41.02 are recorded in the accounting system at their selling prices.*

*Retired inventory items (except precious metals) are valued at the average cost.*

*Precious metals are written down by unit cost.*

#### ***Deferred expenses***

*Expenses made by the Company in the reporting period but related to subsequent accounting periods are shown as deferred expenses. These expenses are written off evenly to the relevant item in the period to which they are referred.*

*Deferred expenses related to purchases of software and databases to be written off later than 12 months after the reporting date are shown in the balance sheet as a part of other non-current assets.*

#### ***Indebtedness of customers and purchasers***

*Debt of customers and purchasers is shown including VAT payable to the budget upon receiving payment in respect of accounts receivable and determined based on prices identified by contracts between the Company and customers (purchasers) given all discounts (premium). If it is unrealistic to expect payment of account receivable the relevant amount is written off the balance sheet as it is deemed uncollectable.*

*Since it is virtually impossible to analyze separately each doubtful debt in respect of telecommunications services rendered by a telecommunications company due to the enormous number of subscribers doubtful debt provisions were allocated to the full amount (100 percent) of debt with respect of all unpaid debt overdue by over 90 days at the moment of provisions allocation. No provisions were allocated for debt less than 90 days overdue.*

*The exception is the debt of the social care and protection bodies. Article 47 of Federal Law #126-FZ of July 7, 2003 will come into force in 2005 and change the arrangements of benefit provision to natural persons with respect to rendering services them by telecommunications organizations. As of January 2005 telecommunications service users eligible for benefits will have to pay in full for services rendered and their expenses should be reimbursed directly from funds of the relevant budget. In view of the above, provisions as on December 31, 2004 covering settlements with social protection bodies were allocated to cover the whole amount of overdue accounts receivable from the first day of their existence.*

*Doubtful debt provisions are charged to the increase of operating expenses.*

#### ***Additional capital and reserves***

*Additional capital is formed due to an increase of fixed asset value determined by revaluation.*

*The Company shall allocate reserves intended for covering its losses and redemption of bonds and repurchase of the Company shares. Reserves are allocated from the Company's net profit.*

*Dividends payable are recognized as liabilities and deducted from the capital at the reporting date, if the dividends were declared before and including the reporting date. Payable dividends declared after the reporting date are reflected in the reports as events after the reporting date.*

#### ***Loans and credit facilities granted to the Company***

*The Company transfers long-term debt on loans and credits granted to the Company into short-term liabilities at the moment when according to terms and conditions of loan and/or credit facilities there were 365 days before maturity of the principal.*

*Additional costs incurred in connection with granting loans or credits include expenses related to:*

- *rendering legal and consulting services to the Company;*
- *carrying out expert examinations;*
- *communications costs;*
- *other costs directly involved in receiving loans in cash funds.*

*Additional costs related to receiving loans and credits, placement of debt instruments are referred to the period in which the said costs were incurred.*

*Interest on the granted credits (loans) is accrued monthly according to relevant agreements.*

*For loans granted in a monetary form and raised by issuing bills of exchange by the Company itself, the amount of discount payable to the note holder shall be charged to deferred expenses and further written off as operating costs monthly in equal shares over the period before maturity.*

*For loans granted in a monetary form and raised by issuing bonds of the Company itself, in the event of sales of issued bonds at the price different from the nominal value (including the discount), the discount shall be charged to deferred expenses and further written off as operating costs monthly in equal shares over the period before the bond maturity.*

#### ***Settlements with respect to profit tax***

*The Company calculates and presents in accounts and financial statements deferred tax assets and liabilities related to profit tax to be paid in the subsequent reporting periods.*

*Deferred tax assets and liabilities are calculated in relation to differences arising in time (temporary differences) and are income and expenses included in balance sheet profit (loss) in one reporting period, while being included in the tax basis for profit tax in other reporting periods.*

*Deferred tax assets are the part of deferred profit tax that shall result in a decrease of the profit tax payable to budget in the year following the reporting year or in subsequent reporting periods. They are calculated by applying the tax rate set by the tax and duties legislation of the Russian Federation, to temporary differences formed in the reporting period that should be subtracted.*

*Deferred tax liabilities are the part of deferred profit tax that shall result in an increase of the profit tax payable to budget in the year following the reporting year or in subsequent reporting periods. They are calculated by applying the tax rate set by the legislation of the Russian Federation on taxes and duties, to temporary differences formed in the reporting period.*

*Current profit tax is recognized as the tax calculated for taxation purposes pursuant to provisions of Chapter 25 of the Tax Code of the Russian Federation and specified in the accounts based on the amount of the conditional profit tax adjusted taking into account the permanent tax assets and obligations and deferred tax assets and obligations of the reporting period.*

*Current profit tax is recognized in the accounts as liabilities toward budget equal to the unpaid profit tax.*

*Conditional cost (income) on profit tax is calculated by multiplying the balance sheet profit (loss) by the profit tax rate set forth by the legislation of the Russian Federation on taxes and duties.*

*Actually overpaid profit tax amounts paid to budgets of constituent entities of the Russian Federation and local municipal budgets are included in accounts receivable.*

#### **Revenue recognition policy**

*The Company revenues are divided into ordinary activities revenues and other revenues (operating, non-sales and extraordinary income).*

*Revenues from sales of products and services rendered are posted on accrual basis, i.e. as services are provided, and shown in the accounts less VAT, customs duties and discounts and benefits provided to customers.*

*Revenues from barter operations (exchange of merchandise) are determined on the basis of values of items, received or to be received by the Company, calculated according to prices the Company normally uses in for valuation of similar items in comparable circumstances.*

*Revenues from provision of assets by Company for lease are normally included in revenues from ordinary activities.*

*Dividends received are recognized as a part of other revenues as the dividends are declared.*

#### **Costs and expense recognition**

*Expenses depending on their nature and activities are divided into ordinary activities expenses and other expenses (operating, non-sales and extraordinary expenses).*

*Ordinary activities expenses are formed in the amount in monetary terms equal to payment amount in cash and other form, or accounts payable.*

*The Company calculates total production costs of the services rendered, works performed not separating organizational and commercial expenses.*

#### **State (government) aid**

*Budget funds received as state aid (subsidies, grants) are recognized as monetary funds and resources different from monetary funds and actually received and shown in the balance sheet included in deferred income.*

***Special purpose financing***

*Funds for special purpose financing are recognized as monetary funds and resources different from monetary funds are actually received and shown in the balance sheet included in deferred income.*

***Provisions for deferred expenses***

*The Company allocates provisions for deferred expenses to cover remuneration payable to members of the Board of Directors, members of the Management Board and members of the Audit Commission of the Company according to the results for the relevant year*

*Expenses for provisions allocation are reflected in non-sales expenses.*

***Expenses on pension schemes***

*Social allocations are made by payment of the unified social tax calculated by the Company according to gradually sliding rate (from 35.6% to 2%) applied to the salary and other remuneration payable to each employee. The Company charges the amount of the unified social tax to three social funds (the state pension fund, the social fund and medical insurance fund), with pension fund allocations accounting for 28% to 2% depending on yearly amount of salaries and remuneration paid to each employee. Allocations are charged to current expenses as they are made.*

*The collective employment contract of JSC CenterTelecom for 2004-2006 provides for social benefits and compensations to the Company's employees. The scheme covers all employees of the Company. Employees working for the Company for over 25 years are eligible for one-time payment upon retirement equal to one monthly salary.*

*Internal Company documents do not provide for creation of any specific funds for making one-time retirement payments.*

*The Company also participates in pension schemes in the framework of non-government pension provision. The amount of contributions too these schemes are determined on the annual basis and charged to expenses as they are incurred. See section 10 of these notes.*

*Stock-taking of property and verification of liabilities are carried out as follows:*

- *of the fixed assets – at least once in two years as on November 1 of the reporting year;*
- *of the intangible assets – annually as on December 1 of the reporting year;*
- *of the capital construction in progress and other capital expenditures – annually as on November 1 of the reporting years;*
- *of the raw materials, materials, equipment for installation, semi-finished products, goods, finished products in warehouses - annually as on November 1 of the reporting years;*
- *of the precious metals – twice a year;*
- *of the production in progress – quarterly as at the end of each quarter;*
- *of the deferred revenues and expenses – annually as on December 31 of the reporting year;*
- *of the cash funds on the bank accounts – annually as on December 31 of the reporting year;*
- *of the cash in the Company's cashier office – at least once a quarter;*
- *of the long-term financial investments – annually as on December 31 of the reporting year;*
- *of the short-term financial investments, cash documents – quarterly as at the end of the quarter;*



- of the settlements with debtors and doubtful debt provisions - quarterly as at the end of the quarter;
- of the settlements with creditors (payments to telecommunications operators) – quarterly as at the end of the quarter; with other creditors – once a year as on December 31 of the reporting year;
- of the settlements with respect to taxes and other mandatory payments to budget and out-of-budget funds – at least once a year;
- of the settlements with respect to special purpose financing – annually as on December 31 of the reporting year;
- of the intra-company settlements – at least once a quarter;
- of the settlements with employees, persons subjected to reporting – once a year as on December 31 of the reporting year.

#### ***Changes in the accounting policies for 2004***

*According to accounting rules PBU 1/1998 Accounting system of organizations consequences of changes in the accounting policies that significantly affect or are likely to affect financial results of the organization's activities shall be reflected in the accounts based on the requirement to produce numbers for 2 years minimum.*

*IN 2004 the Company in the course of applying the accounting rule governing accounting of settlements with respect of profit tax (PBU18/2002) changed the classification of differences arising from doubtful debt provisions, equipment received free of charge and under leasing schemes from "permanent differences" to "temporary differences".*

*In order to bring the Company expenses on tax profit in 2003 to values comparable to expenses in 2004, the Company calculated the brought over balances of the deferred tax liabilities and assets according to the difference existed as on December 31, 2003 and made adjustments in the comparable items of the profit and loss account.*

*In 2004 the Company transferred to the fixed assets immovable items commissioned for service and actually used, pending state registration of ownership rights for such items.*

#### ***Changes in the accounting policies for 2005***

*There were no changes in the accounting policies that may significantly affect financial reports of the Company.*

#### 4. Comparative data

*Comparable data in the Company's accounts for 2004 were obtained by adjusting finalized accounting figures for 2003 in order to make them compliant with changes introduced in the accounting forms for 2004.*

*Changes in the brought-over balance as on January 1, 2004*

Line code	Value as on December 31, 2003	Value as on January 1, 2004	Difference	Notes
120	22,287,735	22,876,293	+588,558	Balance of account 08-09 Completed capital construction items without state registration certificates transferred to account 01-09 Fixed asset items without state registration certificates put into operation.
130	2,760,862	2,172,304	-588,558	
145	11,527	51,866	+40,339	<b>BROUGHT-OVER BALANCES OF DEFERRED TAX ASSETS ARE REFLECTED (TRANSFERRED FROM UNDISTRIBUTED PROFIT OF PREVIOUS YEARS)</b>
150	1,642,503	1,642,860	+357	<b>TRANSFER FROM LINE 216 (ACCOUNT 97-03-02) OF SOFTWARE PRODUCT WITH USAGE TERM OF OVER 12 MONTHS</b>
190	<b>26,824,416</b>	<b>26,865,112</b>	<b>+40,696</b>	<b>TOTAL FOR SECTION</b>
210	915,292,	914,935	-357	<b>TRANSFER TO LINE 150 (ACCOUNT 97-03-02) OF SOFTWARE PRODUCT WITH USAGE TERM OF OVER 12 MONTHS</b>
216	284,870	284,513,	-357	<b>TRANSFER TO LINE 150 (ACCOUNT 97-03-02) OF SOFTWARE PRODUCT WITH USAGE TERM OF OVER 12 MONTHS</b>
242	211,266	213,062	+1,796	<b>BROUGHT-OVER BALANCES FROM LINE 243 TO LINE 242 ACCOUNT 60-28-06 OF ADVANCE PAYMENTS MADE</b>
243	413,823	412,027	-1,796	<b>BROUGHT-OVER BALANCES FROM LINE 243 TO LINE 242 ACCOUNT 60-28-06 OF ADVANCE PAYMENTS MADE</b>
290	<b>5,849,990</b>	<b>5,849,633</b>	<b>-357</b>	<b>TOTAL FOR THE SECTION</b>
300	<b>32,674,406</b>	<b>32,714,745</b>	<b>+40,339</b>	<b>GRAND TOTAL</b>

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

Comparative data

<b>460</b>	6,567,747	8,073,420	+1,505,673	Profit of 2003 is transferred to undistributed profit of previous years for the total amount of 1,502,563 assets (40,339) and liabilities (37,229) are transferred from profit to deferred assets
<b>470</b>	1,502,563	0	-1,502,563	Profit of 2003 is transferred to undistributed profit of previous years
<b>490</b>	<b>15,066,033</b>	<b>15,069,143</b>	<b>+3,110</b>	<b>Total for the section</b>
<b>515</b>	357,897	395,126	+37,229	Transfer from profit to deferred tax liabilities
<b>520</b>	2,221,103	2,221,587	+484	From line 626 to line 520 account 68-19 (long-term debt for restructured taxes)
<b>590</b>	<b>9,306,159</b>	<b>9,343,872</b>	<b>+37,713</b>	<b>Total for the section</b>
<b>620</b>	3,833,783	3,829,369	-4,414	Deposited dividend amount was transferred to line 630 and 520 account 68-19 (long-term debt for restructured taxes)
<b>622</b>	402,591	402,625	+34	The amount of advance payment received was transferred from line 626.
<b>625</b>	519,239	520,210	+971	From line 626 balance of account 76-24 was transferred to account 68-17-01 (road users tax)
<b>626</b>	604,512	599,093	-5,419	Deposited dividend amount (3,930) was transferred to line 630, long-term debt (4,484) for restructured taxes was transferred to line 520 (account 68-19), road users tax (971) was transferred to line 625 from account 76-24, amount of advance payments received (35) was transferred from line 626 to line 622.
<b>630</b>	15,323	19,253	+3,930	Deposited dividend amount was transferred from line 626
<b>690</b>	<b>8,302,214</b>	<b>8,301,730</b>	<b>-484</b>	<b>Total for the section</b>
<b>700</b>	<b>32,674,406</b>	<b>32,714,745</b>	<b>+40,339</b>	<b>Total</b>

*Growth of the balance sheet total by 40,339 thousand rubles is attributed to the brought over balances of deferred tax liabilities and assets having been reflected in the accounts.*

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Comparative data

*Changes in comparable data for 2003 in the profit and loss account.*

<b>Line code</b>	<b>Column 3 form #2 for 2003</b>	<b>Column 4 form #2 for 2004</b>	<b>Difference</b>	<b>Note</b>
<b>020</b>	(15,648,552)	(15,587,379)	61,173	Expenses on non-government pension fund were transferred to non-sales expenses line 130
<b>050</b>	5,241,455	5,302,628	61,173	Expenses on non-government pension fund were transferred to non-sales expenses line 130
<b>090</b>	809,311	778,384	30,927	Restored doubtful debt provisions were aggregated
<b>100</b>	(1,938,483)	(1,878,750)	59,733	Restored doubtful debt provisions were aggregated and expenses on non-government pension fund were transferred to non-sales expenses
<b>120</b>	397,449	396,981	468	Writing off deferred tax liabilities on retired items
<b>130</b>	(1,332,221)	(1,422,200)	(89,979)	Expenses on non-government pension fund were transferred from lines 020 and 100
<b>140</b>	2,303,866	2,303,398	468	Writing off deferred tax liabilities for retired items
<b>150</b>	(796,793)	(816,739)	(19,946)	Total
<b>151</b>	(119,679)	(162,434)	(42,755)	Deferred tax liabilities for leasing payments and doubtful debt provisions
<b>152</b>	(1,414)	21,395	22,809	Deferred tax assets on liabilities for deferred revenues
<b>160</b>	1,507,073	1,486,659	(20,414)	Changes due to making data comparable
<b>190</b>	1,502,563	1,482,149	(20,414)	Changes due to making data comparable
<b>201</b>	(552 928)	(551 845)	1 083	Calculation of contingent revenue taking into account lines 170 and 180
<b>202</b>	(243 865)	(264 894)	(21 029)	Calculation of contingent expenses taking into account lines 170 and 180

## 5. Analysis and assessment of the balance sheet structure and profit performance

### *Analysis and assessment of the balance sheet structure*

As on December 31, 2004 the balance sheet structure can be characterized by the following ratios:

Ratio	01.01.2004	31.12.2004
Absolute liquidity ratio	0.13	0.10
Current liquidity	0.70	0.56
Ratio of sufficiency of the own current assets	-2.02	-2.96
Sales margin	25.38 %	21.08%

**Absolute liquidity ratio** is the ratio of the sum of short-term financial investments (form 1, line 250) and cash (form 1, line 260) to the short-term liabilities (form 1, line 690)

**Current liquidity ratio** is the ratio of current assets (form 1, line 290) less long-term accounts receivable (form 1, line 230) to short-term liabilities (form 1, line 690).

**Ratio of sufficiency of the own current assets** is the ratio of own current assets (form 1, line 490 less line 190) to the total current assets (form 1, line 290).

**Sales margin** is calculated as ratio of profit from sales (form 2 – income statement, line 050) to revenues from sales (form 2, line 010).

As on December 31, 2004 short-term liabilities (13,235,384 thousand rubles) remained in excess of current assets to the amount of 5,805,097 thousand rubles. In order to improve financial stability ratios and solvency and liquidity indicators the Company plans to reduce amounts and alter the structure of the financing sources for funding the investment plan by increasing the share of own resources and reducing the total amount of accounts payable and changing their structure through higher share of long-term debt.

### *Profit performance in 2004*

Activity type	Revenues (form 2, line 010)		Costs and expenses (form 2, line 020)		Profit (form 2, line 050)		Change, D, %
	2004	2003	2004	2003	2004	2003	
Provision of telecom services	24,603,464	20,564,872	(19,502,349)	(15,353,774)	5,101,114	5,211,098	-2.11%
Other	359,652	325,135	(199,759)	(233,605)	159,894	91,530	74.69%
<b>TOTAL:</b>	<b>24,963,116</b>	<b>20,890,007</b>	<b>(19,702,108)</b>	<b>(15,587,379)</b>	<b>5,261,008</b>	<b>5,302,628</b>	<b>-0.78%</b>

At the end 2004 a slight decrease of the profit from sales is observed, viz. 0.78% of the profit from sales in 2003.

Major factors affecting the existing performance of profit from sales:

- changes as of August 1, 2003 in the account settlements with OJSC Rostelecom;
- growth expenses on item Depreciation charges (2003 –1,668.1 million rubles, 2004 – 2,555,2 million rubles, growth rate: 153.2 %), primarily, due to depreciation of equipment received under leasing contract.

Also, according to results of 2004 there is a reduction of the pre-tax profit, which was only 42.1% of the previous year. To a great extent this was predetermined by growing interest payments. Growth rate of expenses on interest payments was 199.5%.

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

## 6. Notes to significant balance sheet items

### 6.1. Fixed assets (line 120 of the Form#1 – balance sheet)

*As on January 1, 2004 the Company did not revalue its fixed assets.*

Changes in the fixed asset original value:

Description	2004	2003
<b>Growth of fixed asset value, total:</b>	<b>9,225,236</b>	<b>6,691,004</b>
including due to:		
new asset acquisitions	2,475,928	2,077,533
construction of new facilities	4,932,876	3,617,008
modernization and refurbishment of facilities in service (additional construction, further installations)	1,328,197	813,684
received free of charge	22,767	96,569
other receipts (including receipt of off-balance sheet equipment under easing terms and fixed assets found during stock-taking)	465,468	86,210
<b>Decrease (retirement) in the fixed asset value, total</b>	<b>(163,857)</b>	<b>(246,690)</b>
including due to:		
sale of fixed assets	(43,147)	(20,728)
written off fixed assets	(86,076)	(139,079)
reconstruction (partial liquidation) of fixed assets	(2,096)	(20,109)
other retirement	(32,538)	(66,774)
<b>Changes in depreciation, total</b>	<b>(2,718,918)</b>	<b>(1,705,852)</b>
accrued depreciation over the period	(2,817,728)	(1,887,752)
depreciation of realized items	22,036	15,227
depreciation of written off items	75,912	139,367
<b>depreciation of other retirement</b>	<b>862</b>	<b>27,306</b>
<b>Total change of the fixed assets value</b>	<b>6,342,461</b>	<b>4,738,462</b>

*The bulk of the increase in the fixed assets value is attributed to newly acquired items (property for production purposes) – 26%, and newly constructed sites (buildings, lines): 53%.*

### ***Fixed assets received under leasing agreements***

*As on December 31, 2004 the Company concluded 270 financial lease (leasing) agreements for leasing of auto-vehicles, switches and other telecommunications equipment. Leasing terms are from 24 to 60 months.*

*Cost of fixed assets received under leasing agreements:*

Description	On January 1, 2004	As on December 31, 2004
Book value of fixed assets		
- original value of fixed assets	2,185,782	4,363,914
- accrued depreciation of fixed assets	(228,034)	(893,009)

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

- fixed asset book value	1,957,748	3,470,905
Fixed assets on the balance sheet of the Lessor		
- contract value of the fixed assets	846,547	725,203

Amounts of forthcoming leasing payments:

Due time	Payment amount, total	including:	
		for fixed assets on the balance sheet of the Company (shown in liabilities item lines 520 and 620 of the Balance sheet)	fixed assets on the balance sheet of the Lessor (not included in liabilities)
2005	1,350,025	1,246,757	103,268
2006 - 2010	2,893,132	2,794,285	98,847
<b>TOTAL:</b>	<b>4,243,157</b>	<b>4,041,042</b>	<b>202,115</b>

**6.2. Capital expenditures (item 130 of the balance sheet):**

Description	On January 1, 2004	As on December 31, 2004
<b>Investments in non-current assets, total:</b>	<b>1,872,128</b>	<b>2,523,846</b>
including: construction, modernization, refurbishment of fixed assets by contracting external parties	1,464,530	2,358,295
construction, modernization, refurbishment of fixed assets by the Company itself	102,406	68,697
capital investments in rented fixed assets	893	3,872
acquisition of certain items of fixed assets	79,694	9,656
acquisition of fixed assets under leasing agreements	209,430	81,976
incomplete R&D		239
other	15,175	1,111
Equipment intended for installation	300,176	632,819
<b>TOTAL:</b>	<b>2,172,304</b>	<b>3,156,665</b>

*The Company carries out construction and refurbishment of 1,311 sites. In 2004 capital expenditures amounted to 9,764,480 thousand rubles, including:*

- non-current assets received free of charge were valued at 12,882 thousand rubles;
- value of assets accepted for accounting purposes resulting from stock taking is 12 thousand rubles;
- procured fixed assets valued at less than 10 thousand rubles, total value is 130,811 thousand rubles.

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

*The Company in 2004 brought into service fixed assets valued at 8,774,290 thousand rubles, including:*

- *accepted for accounting purposes assets valued at less than 10 thousand rubles, with the total value of 132,277 thousand rubles;*
- *sold assets valued at 234 thousand rubles;*
- *contributed under equity participation agreements 2,850 thousand rubles;*
- *assets transferred free of charge: 103 thousand rubles;*
- *charged to losses and to other accounts: 2,641 thousand rubles.*

**6.3. Financial investments (items 140 and 250 of the balance sheet)**

*In section 4 form #5 Supplement to the balance sheet the information on value of financial investments according to types is shown, including financial investments with values adjusted up to the current market price as of December 31, 2004.*

***Investments of the Company into charter capitals of daughter, affiliated and other companies (items 141, 142, 143 of the balance sheet).***

*Key investments of the Company into charter capitals of daughter, affiliated and other companies*

<b>Organization</b>	<b>Type of activities</b>	<b>Value of investments as on December 31, 2004</b>	<b>Interest in the charter capital %</b>	<b>Share of the voting shares, %</b>	<b>Book value</b>	<b>Revenues</b>
<b>Daughter companies</b>						
JSC Aerocom	Telephony, data, telematic services, lease of circuits, system integration	492,147	99.62	99.62	115,591	276,689
Teleport-Ivanovo LLC	Cellular communications, data, trade in telecom equipment	151	100	100	2,521	6,529
MobilCom LLC	Mobile radio communications using standards MRT-1327, SN-11	2,250	100	100	7,556	2,858
JSC RTS	Telephony, data, telematic services, lease of circuits, system integration	860,631	100	100	895,154	779,147



**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

Organization	Type of activities	Value of investments as on December 31, 2004	Interest in the charter capital %	Share of the voting shares , %	Book value	Revenues
TelecomStroy LLC	Technical maintenance of engineering networks, boiler plants, general construction, cleaning	511	100	100	3,949	20,938
Telecom-Terminal LLC	Trade and repair of terminal devices	260	100	100	795	3,976
ZAO Vladimir-Teleservice	Internet access, IP-telephony	2,948	100	100	6,512	15,650
Svyaz-Service-Irga LLC	Design and construction of telecom lines, installation of telecom equipment, commissioning and bringing into service telecom equipment, trade and purchases, broker, sales activities. Repair of equipment and devices.	16	70	70	3,649	7,613
VladPage LLC (being wound up)	Personal radio paging	41	75	75	---	---
Private JSC CenterTelecom Service	Local, domestic long-distance and international telephone services, data, circuit lease.	75	74.9	74.9	36,186	26,932
Vladimirski Payphone LLC	Local, domestic long-distance and international telephone services using universal phone card payphones	92	51	51	7,481	15,279
Private JSC CenterTelecom Service of the Moscow region	Data services, Internet access using pre-paid cards, dedicated	87,354	51	51	42,465	59,051

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

(CTCS MO)	Internet access, implementation of integration projects					
Private JSC Telecom of the Ryazan region	Local, domestic long-distance and international telephone services using universal phone card payphones	486	50.9	50.9	17,714	22,848
Private JSC TeleRoss-Voronezh	Agent of Sovintel for telecom services	585	50	50	8,148	12,288
Tver telecom LLC	Local and intra tariff band telephony, data services, telematic services, Local, domestic long-distance and international telephone services over dedicated lines	17,247	85	85	40,901	48,967
Provisions for devaluation		41				
<b>TOTAL:</b>		<b>1,464,753</b>				
<b>Associated companies</b>						
Private JSC Smolenskaya Cellular Communications	Cellular communications using AMPS-800, GSM-1800 standards	2,349	40	40	160,232	30,959
Private JSC Belgorodskaya Cellular Communications	Cellular communications using DAMPS-800, GSM-1800 standards	1,749	30	30	181,723	40,033
JSC Telecommunications Company Rinfotels	Data services using X.25, X.28, Frame Relay protocols, TCP/IP, Internet, telephony	26,	26	26	6,856	11,243
Trunksvyaz LLC (being wound up)	Trunking	25,	25	25	---	---
Private JSC SK KOSTARS	Life insurance for telecommunications workers	2,815	28	28	26,801	19,366
Provisions for devaluation		2,840				
<b>TOTAL:</b>		<b>4,124</b>				
<b>Financial investments in other organizations</b>						
Private JSC Oskol	Cable TV services		12.41	12.41		

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

Telecom		471			59,591	19 091
JSC Teleservice	Cable TV services	72	6.60	6.60	48,494	24,198
Private JSC Lipetsk-Mobile	Cellular communications using AMPS- 800,GSM-1800 standards	102	5.91	5.91	15,920	5,077
JSC Comset	Cable TV services	155	5.17	5.17	Simplified	14,802
Private JSC IC Informsvyaz- Chernozemie (Black soil area)	Data, IP-telephony, Internet access, digital circuits	4	4	4	23,059	95,974
Private JSC IC Informsvyaz- Chernozemie (Black soil area)	Creation and operation of dedicated (private) telecommunications networks	5	0.06	0.06	20,382	25,692
OJSC Rostelecom	Domestic long- distance and international telecommunications services	106	0.0002	0.0002	44,596,093	3,747,050
Private JSC NTC COMSET	R&D	35	11.09	11.09	52,796	50,417
Private JSC Optimum-svyaz	Sale of accessories for mobile phones	10	10	10	845	4,621
Private JSC STARTCOM	R&D	18	3.70	3.70	79,570	6,483
Private JSC Voronezh regional agency for support of small and medium businesses	Consulting	5	8.97	8.97	79	397
OAo Recreation facility Krugozor	Recreation and recuperation	2,009	2.47	2.47	62,433	72,282
OAo Ivanovo margarine factory	Food products	407	0.2	0.2	179,895	590,210
OAo Shuyski vegetable oil extraction factory	Food products	560	0.2	0.2	545,178	793,457
OAo Ryazan oil refinery	Oil refinery	3	0.0047	0.0047	288,678	3,689
OAo ACB Link- bank	Banking	300	4.9	4.9	223,456	67,789
OAo Inter-regional commercial bank for development of	Banking	1,797	1.28	1.28	27,794,580	456,654

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

telecommunications and information technology Svyaz-Bank»						
OAo CB Tolski industrialist	Banking	588	0.8	0.8	965,465	347,917
OAo Kursk industrial bank Kurskprombank	Banking	3	0.02	0.02	3,009,678	843,750
OAo ACB Saving bank of the RF	Banking	5,870	0.000634	0.002	5,184,768,876	52,572,164
OAo Priovneshtorgbank	Banking	0.7	0.002	0.002	1,534,678	814,104
OAo Belgorodpromstroy bank	Banking	2	0.017	0.017	788,203	324,678
OAo Bank of social development and construction Lipetskcombank	Banking	21	0.0072	0.0072	6,038	1,714,381
OAo MACB Vozrozhdenie (Revival)	Banking	2	0.00008	0.00008	27,794,580	14,089,713
OAo AB Incombank	Banking	88	0.008	0.008	being wound up	
Private JSC Cellular Communications of Chernozemie (Black soil area)	Cellular communications using NMT-450 standard	0.051	0.076	0.076	31,800	26,756
Provisions for devaluation		2,578				
<b>Total</b>		<b>10,056</b>				
<b>Grand total (sum of balance sheet item 141, 142, 143)</b>		<b>1,478,933</b>				

*Income received as dividends from long-term financial investments is shown in item Income from participation in other organizations of the profit and loss account in the amount of 682 thousand rubles) (528 thousand rubles in 2003).*

*Pursuant to the following decisions of the Board of Directors:*

*- #38 of April 21, 2004 the Company's interest in the charter capital of Private JSC Vladimir Teleservice was increased up to 100% through acquisition of a stake of ordinary registered shares (11,000 shares) or 50% of the Charter capital of the said organization from OAo Central Telegraph for 2,922,040 rubles. The entry confirming the transfer of the ownership rights for these shares was made in the shareholders' register on August 27, 2004;*

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

---

(Russian Rubles in thousands, unless explicitly stated otherwise)

- #38 of April 21, 2004 the Company's interest in TverTelecom LLC was increased up to 85% of the Charter capital through purchases acquisition of stakes from Cosmocom LLC (16% of the Charter capital), Orbita-Telecom LLC (19%), Vialakta-Com (16%), TelVit LLC (4%), Renoks LLC (4%) for the total price of 15,761,000 rubles. The entry confirming the transfer of the ownership rights for these securities was made in the shareholders' register on October 4, 2004;

- #41 of June 10, 2004 the Company acquired 99.619% of the Charter capital of OAO Aerocom. The entry confirming the transfer of the ownership rights for these securities was made in the shareholders' register on November 03, 2004;

- #18 of December 24, 2004 the Company's stake in the Charter capital of Private JSC CenterTelecomService of the Moscow region was increased up to 100% through purchase of 3 ordinary registered book-entry shares for 9 dollars per share from Company Koteks for the total of 27 US dollars, 3,001 ordinary registered book-entry shares of Private JSC CenterTelecomService of the Moscow region for 9 US dollars per share from Mr. N.Tyutin for the total price of 27,009 US dollars, 20,995 ordinary registered book-entry shares of Private JSC CenterTelecomService of the Moscow region for 9 US dollars per share from Sierra Madre Limited for the total price of 188,955 US dollars, 25,001 ordinary registered book-entry shares of Private JSC CenterTelecomService of the Moscow region for 1 ruble per share from Real Plus Construction Company for the total price of 25,001 rubles or 860.9 US dollars. The entry confirming the transfer of the ownership rights for these securities was made in the shareholders' register on February 3, 2005;

- #23 of December 25, 2003 providing for acquisition of 100% shares of OAO RTS. The deal was closed in two stages in 2004:

- March 31, 2004 the Company purchased 88.448% of the Charter Capital totaling 753,902,909 rubles 03 copecks;

- August 6, 2004 the Company acquired another 11.552% of the Charter capital for 106,728,033 rubles 70 copecks.

Acquisitions made by the Company are in keeping with the goals of the corporate restructuring of associated businesses of JSC CenterTelecom. The acquired companies have the same core business as the Company, are the most competitive and robustly growing operators on the market of non-regulated telecommunications services. Acquisitions of alternative operators and enhancement of the Company's exposure in various regions of the country will offer an opportunity to provide integrated solutions for lucrative corporate market sector, significantly consolidate JSC CenterTelecom's position on the telecommunications market, will facilitate achievement of the goals set by the Company marketing strategy, namely:

- maintaining the leading position on the telecommunications market;
- growing share of revenues on the telecommunications service market;
- growing share of non-regulated services in the revenue structure;
- increasing the share of revenues generated by business sector up to Russia's average.

- # 2 of June 28, 2004 the Company acquired 56,000 ordinary registered shares of Private JSC SK Kostars with the nominal value of 50 rubles per share for the total price of 2,800,000.00 rubles, accounting for 28% of the charter capital of ZAO SK Kostars. The entry confirming the transfer of the ownership rights for these securities was made in the shareholders' register on December 30, 2004. The shares were acquired to diversify portfolio investments;

- #38 of May 21, 2004 the Company participation in Private JSC Tverskaya Cellular Communications was terminated by selling 120 ordinary registered shares accounting for 40% of the charter capital of JSC Tverskaya Cellular Communications to Orbita-Telecom LLC for the total price of 15,761,000 rubles. The value of the retired shares totaling 12,000 was charged to operating expenses and shown in item 100 of the profit and loss account. The income from the sale was 15,761,000 rubles and shown in item 090 of the profit and loss account;

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
**Explanatory Notes to significant balance sheet items**

---

(Russian Rubles in thousands, unless explicitly stated otherwise)

- #38 of April 21, 2004 the Company participation in the charter capital of OAO Gasenergobank was terminated by selling the stake owned by the Company (68,200 ordinary registered book-entry shares or 25.213% of the charter capital of OAO Gasenergobank) for the total price of 7,699,998 rubles to the following organizations: Elidius LLC (4,494 shares) for 507,387 rubles, I Step LLC (51,360 shares) for 5,798,708 rubles, Company GeoLak LLC (6,200 shares) for 700,000 rubles, TC SIRIUS.com LLC (1,651 shares) for 186,403 rubles, RCP-Trans LLC (4,495 shares) for 507,500 rubles. The value of the sold shares totaling 6,820,000 rubles was charged to operating expenses and shown in item 100 of the profit and loss account. The income from the sale was 7,699,998 rubles and shown in item 090 of the profit and loss account;

- #40 of May 31, 2004 the Company participation in Rating LLC was terminated by selling the stake owned by the Company (29.39% of the charter capital) at the par value of 36,315.88 rubles to Mr. V. Mosolov;

#40 of May 31, 2004 the Company participation in Private JSC InformCourierSvyaz was terminated by selling the stake owned by the Company (29 shares with nominal value of 1,000 rubles) for the total price of 29,000 rubles to Agency of Humanitarian Technologies AGT LLC;

- #2 of June 28, 2004 the Company participation in the charter capital of RadioLine LLC was terminated by selling the stake owned by the Company (13% of the charter capital) at the par value of 650 rubles to Mr. S. Degtyarev;

- #3 of July 13, 2004 the Company participation in the charter capital of OAO YaTKP Volga RadioLine LLC was terminated by selling 285 shares with the par value of 10 copecks each owned by the Company (3.68% of the charter capital) for the total price of 31,941.50 rubles to Mr. V. Ryzhov. The value of the sold shares totaling 150,000 rubles was charged to operating expenses and shown in item 100 of the profit and loss account. The income from the sale was 31,941.50 rubles and shown in item 090 of the profit and loss account;

- #3 of July 13, 2004 the Company participation in the charter capital of Private JSC Cellular Communications of Chernozemie (Black-soil area) was terminated by selling 720 ordinary shares of Private JSC Cellular Communications of Chernozemie owned by the Company (45% of the charter capital), 42 ordinary shares of Private JSC Kaluzhskaya Cellular Communications (42% of the charter capital), 60 ordinary shares of Private JSC Ryazanskaya Cellular Communications (40% of the charter capital), 2,750 ordinary shares of Private JSC Bryanskies Cellular Networks (34.4% of the charter capital) for the total price of 8,000,000 US dollars. The value of the sold shares totaling 325,809 rubles was charged to operating expenses and shown in item 100 of the profit and loss account. The income from the sale was 233,087,781 rubles and shown in item 090 of the profit and loss account;

- #35 of May 11, JSC CenterTelecom initiated the wind up of VladPage LLC (the interest is 75% of the charter capital). At the moment creditors demands are satisfied, the wind up balance sheet is compiled, a lawsuit was filed requesting to announce bankruptcy of VladPage LLC;

- #10 of October 2004 JSC CenterTelecom initiated the wind up of Trunksvyaz LLC (the interest is 25% of the charter capital)

### **Contributions made under partnership agreements**

The financial investments in line 144 reflect the Company's contribution in the joint activities with Topsnabinvest LLC and Bowling Center LLC in the form of a partnership, to the amount of 6,491 thousand rubles or 30% interest. The joint activities are arranged to provide radio-telephone services using CDMA. Agreement # 79/98 was concluded on November 29, 2002 for 8 years.

Expenses under the agreement incurred by the Company in 2004 were 3,190 thousand rubles, income under the agreement totaled 5,778 thousand rubles.

Distribution of financial results under a partnership agreement is carried out quarterly between the partners pro rata to their interests. In 2004 the Company received from the joint activities with Topsnabinvest LLC

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

and Bowling center LLC profit amounting to 2,589 thousand rubles (4,069 thousand rubles in 2003) < which is shown in the operating revenues/expenses of the Company.

The Company contribution in the joint activities with Private Security Firms ChOP Center LLC and ChOP Obereg LLC in Kostroma in form of a partnership amounting to 218 thousand rubles or one third interest is also shown in the financial investments in line 144. The joint activities are arranged for utilization of the central station for site monitoring. The agreement was concluded on June 23, 2003 for an unlimited term. The Company incurs no expense and derives no income under the agreement.

**Loans granted to other organizations**

Loans provided by the Company as on December 31, 2004:

<b>Borrower</b>	<b>Facility amount</b>	<b>Maturity</b>	<b>Interest rate (p.a.)</b>
<b>Short-term loans</b>			
Private JSC (ZAO) Krestyanin	150	01.02.03	
ZAO Krestyanin	100	01.02.04	
ZAO Krestyanin	200	26.03.02	
ZAO Krestyanin	209	01.11.02	
SO Spartak LLC	694	01.02.04	25%
Center Broker Leasing LLC	1,288	31.05.05	25%
Skat 69 LLC	50	01.12.00	
Provisions for devaluation	50		
<b>TOTAL:</b>	<b>2,641</b>		

Other financial investments are bills of exchange totaling 200 thousand rubles. Provisions for devaluation of bills of exchange were not allocated due to stability of these investments.

**Changes in the valuation of the financial investments in 2004**

In 2004 financial investments of the Company in the securities were adjusted to be equal to the current market price.

<b>Securities</b>	<b>Value as on January 1, 2004</b>	<b>Value as on December 31, 2004</b>	<b>Change of valuation</b>	<b>Charged to</b>
<b>Adjusted value, total:</b>	<b>3,486</b>	<b>5,978</b>	<b>+2,492</b>	
<i>including:</i>				
Shares of OAO AC Saving Bank of the RF	3,358	5,870	+2,512	operating expenses
Shares of OJSC Rostelecom	128	106	-22	operating expenses
Shares of OAO Bank Vozrozhdenie	0	2	+2	operating expenses

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

***Provisions for devaluation of the financial investments in 2004***

<i>Financial investments</i>	<i>Provisions as on January 1, 2004</i>	<i>Provisions allocated in 2004</i>	<i>Provisions used in 2004</i>	<i>Restored provisions in 2004</i>	<i>Provisions as on December 31, 2004</i>
<b><i>Provisions, total:</i></b>	<b>3,486</b>	<b>4,587</b>	<b>364</b>	<b>2,200</b>	<b>5,509</b>
<i>including</i>					
<i>Share of ZAO Svyazproekt</i>	4		4		
<i>Contribution to the charter capital of MobilCom LLC</i>	562			562	
<i>Contribution to the charter capital of TelecomStroy LLC</i>	128			128	
<i>Contribution to the charter capital of Teleport-Ivanovo LLC</i>	38			38	
<i>Shares of Private Stock- Company Radiopaging Incorporated</i>	147		147		
<i>Contribution to the charter capital of Rating LLC</i>	18		18		
<i>Contribution to the charter capital of TverTelecom LLC</i>	25			25	
<i>Shares of OAO AB Incombank</i>	88				88
<i>Shares of ZAO Voronezh regional agency for support of small and medium businesses</i>	4			4	
<i>Shares of ZAO InformCourierSvyaz</i>	22		22		
<i>Shares of ZAO Kaluzhski Registration Center (Kaluga)</i>	60		60		
<i>Shares of Ivanovo Margarine Factory</i>	305			91	214
<i>Shares of OAO Shuyski Vegetable Oil Extraction Factory</i>	420			420	
<i>Shares of OAO ACB Svyaz- Bank</i>	1,347			727	620
<i>Contribution to the charter capital of RadioLine LLC</i>	1		1		
<i>Shares of Yaroslavskoe trade and commerce enterprise Volga</i>	112		112		



**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

<i>Provisions as on January 1, 2004</i>	<i>Provisions allocated in 2004</i>	<i>Provisions used in 2004</i>	<i>Restored provisions in 2004</i>	<i>Provisions as on December 31, 2004</i>	
<i>Loan to SO Spartak LLC (Tver)</i>	205			205	
<i>Contribution to the charter capital of VladPage LLC</i>		41			41
<i>Shares of ZAO SK Kostars</i>		2 815			2,815
<i>Contribution to the charter capital of Trunksvyaz LLC</i>		25			25
<i>Shares of OAO Recreation Facility Krugozor</i>		1 656			1,656
<i>Loan to Skat 69 LLC (Tver)</i>		50			50

**6.4. Deferred tax assets (item 145 of the balance sheet)**

*Flow of deferred tax assets in 2004:*

<i>Balance as on January 1, 2004</i>	<b>51,866</b>
<i>Allocated in the reporting period for deducted temporary differences</i>	125,950
<i>Paid to reduce tax payments</i>	-6,117
<i>Balance as on December 31, 2004</i>	<b>171,699</b>

**6.5. Other non-current assets (item 150 of the balance sheet):**

<b>Description</b>	<b>On January 1, 2004</b>	<b>As on December 31, 2003</b>
Advance payments made in respect of acquisition and creation of non-current assets	655,699	1,017,363
Deferred expenses for purchases of software and databases	987,156	2,037,633
Other non-current assets	5	2
<b>TOTAL:</b>	<b>1,642,860</b>	<b>3,054,998</b>

**Software Product Oracle E-Business Suite**

*The deferred expenses assets for purchases of software and databases include the Company expenses for purchase and implementation of the enterprise management software Oracle E-Business Suite, totaling 1,047,145 thousand rubles. The Company purchased 18,049 licenses for E-business Suite 2003 Professional granting non-exclusive usage rights to use the software, 40 licenses for Activity Based Management product, 8 licenses for Treasury product, 72,196 licenses for Payroll product, 72,196 licenses for Russian Time Management, 426 license for Enterprise Asset Management product.*

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

*Expenses for the purchase and implementation of the software product Oracle E-Business Suite will be written off to the current expenses of the Company after the software starts operating pro rata to the number of used licenses during the useful life of licenses set from 5 to 7 years.*

*The Company plans to carry out the installation of the complete in 2005-2008.*

**Software product Amdocs Billing Suite**

*The deferred expenses assets for purchases of software and databases include the Company expenses for purchase and implementation of a software product Amdocs Billing Suite, totaling 934,465 thousand rubles, in order to implement a single automated billing system. The project of implementation of the software Amdocs Billing Suite will be completed within 4-5 years*

The purchase of Amdocs Billing Suite was approved by the Board of Directors of the Company on November 19, 2004.

Delivery of the software product Amdocs Billing Suite was completed in December 2004 by IBM Eastern Europe/Asia LLC, to which the Company gave 18 bills of exchange issued by the Company itself worth 1,093,751 thousand rubles as a security. The bills of exchange are planned to be repaid before June 1, 2006.

*Expenses for the purchase and implementation of the software product Amdocs Billing Suite will be written off to the current expenses of the Company after the software starts operating pro rata to the cost of the installed modules during the useful life of modules set from 5 to 7 years.*

**6.6. Inventories**

Structure of raw and other materials and other tangible items (line 211 of the balance sheet)

Description	On January 1, 2004	As on December 31, 2004
Cable	156,190	167,465
Fuel	9,576	10,797
Spares	99,325	80,063
Materials, transferred to third parties for processing	1,677	1,626
Construction materials	45,132	52,438
Tools and appliances	74,531	75,571
Other materials	213,917	252,470
<b>TOTAL:</b>	<b>600,348</b>	<b>640,430</b>

**6.7. VAT on purchased items (item 200 of the balance sheet)**

*Significant increase of VAT by 600,492 thousand rubles as on December 31, 2004 was due to growing VAT on capital construction and leasing of equipment.*

**6.8. Short-term accounts receivable due from purchasers and customers as on 31.12 2003 (item 241 of the balance sheet):**

Description	Total indebtedness	Doubtful debt provisions	Indebtedness less doubtful debt provisions
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**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

<b>As on January 1, 2004</b>			
Account settlement with individuals (in respect of telecom services)	856,380	-65,176	791,204
Settlements in respect of recovery of costs for provision of benefits to certain eligible customers	1,176,384	-777,022	399,362
Settlements with budget funded organizations with respect of telecommunications services	189,150	-55,111	134,039
Settlements with organizations not funded from budget with respect of telecommunications services (excluding operators)	368,590	-51,198	317,392
Account settlements with operators for telecommunications services	65,690	-7,786	57,904
Account settlements with purchasers and customers for non-core activities	37,837	-16,874	20,963
Settlements for realized assets	6,321		6,321
Settlements with purchaser for civil defense	5,264		5,264
<b>TOTAL on January 1, 2004:</b>	<b>2,705,616</b>	<b>-973,167</b>	<b>1,732,449</b>
<b>As on December 31, 2004</b>			
Account settlement with individuals (in respect of telecom services)	1,052,415	-70,730	981,685
Settlements in respect of recovery of costs for provision of benefits to certain eligible customers	1,935,499	-1,731,986	203,513
Settlements with budget funded organizations with respect of telecommunications services	171,320	-28,671	142,649
Settlements with organizations not funded from budget with respect of telecommunications services (excluding operators)	315,082	-47,156	267,926
Account settlements with operators for telecommunications services	140,006	-21,371	118,635
Account settlements with purchasers and customers for non-core activities	51,515	-17,148	34,367
Realized assets settlements	15,410	-1,176	14,234
Settlements with purchaser for civil defense	14,872	-8,176	6,696
<b>TOTAL on December 31, 2004:</b>	<b>3,696,119</b>	<b>-1,926,414</b>	<b>1,769,705</b>

*Article 47 of Federal Law #126-FZ of July 7, 2003 will come into force in 2005 and change the arrangements of benefit provision to natural persons with respect to rendering services to them by telecommunications organizations. As of January 2005 telecommunications service users eligible for benefits will have to pay in full for services rendered and their expenses should be reimbursed directly from funds of the relevant budget.*

*Debt of the social protection bodies for reimbursement of expenses related to provision of benefits to certain categories of subscribers accounted for 52.4% of the total accounts receivable as on December 31, 2004 (43.5% as on January 1, 2004)*

*In 2004 the legal department of JSC CenterTelecom managed to recover 160,388 thousand rubles from debtors – recipients of funds from budgets of all levels, including:*

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

- 103,345 thousand rubles were received as voluntary payments to settle the filed claims;
- 23,628 thousand rubles of claims were waived due to the voluntary repayment of debts before the court decisions were handed down;
- 15,953 thousand rubles were recovered due to voluntary payments made pursuant to court orders;
- 17,462 thousand rubles were recovered enforcing court orders, including cases where legal firms were engaged.

Additionally, receipt during 2005 of funds totaling 65,359 thousand rubles can be predicted, as documents for recovery of such funds were processed by the legal department of the Company by December 31, 2004, including:

- 3,003 thousand rubles to be received on 262 cases;
- on 2,359 filed claims totaling 43,088 thousand rubles;
- on 149 lawsuits filed with various courts, totaling 6,912 thousand rubles;
- 220 court orders to be enforced, totaling 12,356 thousand rubles.

In 2004 the legal department of JSC CenterTelecom managed to recover 53,672 thousand rubles from the federal budget to collect accounts receivable accrued due to provision of services to subscribers eligible for benefits, including:

- 16,480 thousand rubles were received as voluntary payments to settle the filed claims;
- 641 thousand rubles of claims were waived due to the voluntary repayment of debts before the court decisions were handed down;
- 942 thousand rubles were recovered due to voluntary payments made pursuant to court orders;
- 35,609 thousand rubles were recovered enforcing court orders, including cases where legal firms were engaged.

Additionally, receipt during 2005 of funds totaling 1,006,004 thousand rubles can be predicted, as documents for recovery of such funds were processed by the legal department of the Company and engaged legal firms by December 31, 2004, including:

- 420,153 thousand rubles to be received in 7 cases;
- 111 filed claims totaling 228,036 thousand rubles;
- 69 lawsuits filed with various courts, totaling 337,136 thousand rubles;
- 220 court orders to be enforced, totaling 20,679 thousand rubles.

**6.9. Other accounts receivable with payments expected within 12 months from the reporting date (item 243 of the balance sheet)**

Description	On January 1, 2004	As on December 31, 2004
<b>PAYMENTS WITH RESPECT OF TAXES AND DUTIES</b>	246,595	245,581
Social insurance and social care payments	12,172	13,019
Payments of salaries and wages	409	290
Settlements with advance holders	1,494	1,134
Settlements with employees for other transactions	7,640	7,541

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

Settlements with various debtors:	143,717	595,508
- property and personal insurance	895	183
- claims settlements	14,633	11,817
- income due	2,481	1,412
- settlements with respect to investments		143,930
- settlements of taxes and duties	73	62
- settlements of securities deals		9,236
- other	125,635	428,868
<b>TOTAL:</b>	<b>412,027</b>	<b>863,,073</b>

*Significant growth of other accounts receivable (line 243 of the balance sheet) was caused by an acquisition in 2004 of a block of shares of daughter companies of JSC Russian Telecommunications Network (RTS), acquisition of OAO Aerocom and repayment of the principal of the credit facility for ZAO Regional Telecommunications Company.*

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

**6.10. Charter (authorized) capital (item 410 of the balance sheet)**

*The charter capital is 631,199,896 rubles divided into 1,578,006,833 ordinary and 525,992,822 preference shares with the nominal value of RUR0.3 each.*

(Russian rubles.)

Shareholder	Ordinary shares		Preference shares	
	Number of shares	Nominal value	Number of shares	Nominal value
<b>Legal entities, total:</b>	<b>1,466,969,663</b>	<b>440,090,899</b>	<b>432,676,386</b>	<b>129,802,916</b>
including:				
- JSC Svyazinvest	799,867,813	239,960,344		
- Daughter and affiliated companies	7,864,116	2,359,235		
of which:				
- ZAO Oskoltelecom	7,471,500	2,241,450		
- TverTelecom LLC	369,707	110,912		
- OAO TC Rinfotels	22,909	6,873		
- Other legal entities, total	659,237,734	197,771,320	432,676,386	129,802,916
of which:				
- Russian federal Property Fund	151,356,274	45,406,882		
- Lindsell Enterprises Limited	32,733,878	9,820,163	17,579,372	5,273,812
<b>Natural persons, total:</b>	<b>111,037,170</b>	<b>33,311,151</b>	<b>93,316,436</b>	<b>27,994,931</b>
- The Company employees	54,262,962	16,278,889	44,446,227	13,333,868
- other	56,774,208	17,032,262	48,870,209	14,661,063
<b>TOTAL:</b>	<b>1,578,006,833</b>	<b>473,402,050</b>	<b>525,992,822</b>	<b>157,797,847</b>

*As on December 31, 2004 the Charter capital of the Company was paid-up in full.*

*Preference shares do not carry voting rights; they cannot be converted into ordinary shares; annual income of at least 10 percent of the net profit according to financial statements is payable on preference shares.*

**6.11. Company share repurchased from shareholders (item 440 of the balance sheet)**

*As on December 31, 2003 and 2004 the Company had no repurchased shares reflected on the balance sheet.*

**6.12. Distribution of profit**

Planned distribution of 2004 profit to be approved at the annual general meeting of shareholders of the Company scheduled for June 30, 2005:

	Amount
<b>Capital before distribution of the reporting year profit</b>	
<b>Capital before distribution of the reporting year profit</b>	631,200
Charter capital	31,560
Reserves	6,327,621

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

Additional capital	7,725,851
Profit of previous years	397,711
Reporting year profit	<b>15,113,943</b>
<b>Total capital before profit distribution:</b>	
<b>Allocations of the reporting year profit</b>	
Allocations to reserves	
Allocations to finance employee stockownership plan (if provided for by founding documents)	(139,199)
Dividend payments	<b>(139,199)</b>
<b>Total distributed profit of the reporting year</b>	
<b>Capital after profit distribution</b>	631,200
Charter capital	31,560
Reserves	6,327,621
Additional capital	7,984,363
Profit of previous years	<b>14,974,744</b>
<b>Decrease of capital after distribution of the reporting year profit</b>	<b>(139,199)</b>
<i>Growth (reduction) of capital with respect to undistributed profit of the reporting year</i>	258,512

#### 6.13. Dividends

*In 2004 the dividends declared for the year ended December 31, 2003 amounted to 0.124867 rubles per ordinary share and 0.285662 rubles per preference share. Total amount of payable dividends was 347,297 thousand rubles.*

Type of shares	Number of shares	Dividend per share, rubles	Total dividend, rubles
	525,992,822	0.285662	150,256,163
	1,578,006,833	0.124867	197,040,975
<b>TOTAL:</b>	<b>2,103,999,655</b>		<b>347,297,138</b>

*The attached financial statements do not reflect dividends for 2004. These will be shown as allocations of undistributed profit during the year ending December 31, 2005 subject to approval at the annual general meeting of shareholders of the Company.*

#### 6.14. Credits and loans (lines 510 and 610 of the balance sheet):

Lender	Long-term		Short-term	
	01.01.2004	31.12.2004	01.01.2004	31.12.2004
<b>Bank credit facilities, total:</b>	<b>3,963,900</b>	<b>3,728,372</b>	<b>3,283,624</b>	<b>4,160,134</b>
including:				
OAo Vneshtorgbank	366,405	201,008	511,447	327,470
Vnesheconombank	169,999	92,320	539,490	537,084
ZAO ACB Promsvyazbank		400,000	575,371	69,989
ZAO CB GUTA-Bank	620,657	98,449	255,730	97,960
ACB Crosna-bank			44,521	
Middle Russia Saving Bank of RF	2,782,962	2,936,000	580,644	1,884,334
OAo CB Bryanski Narodny Bank			20,000	

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

ACB MIB			38,907	
FACB Voznesenski			5,000	
OAo IMPEXBANK			69,405	20,000
ZAO CB Gasprombank			4,000	
OAo Investment bank Trust			502,411	502,103
ZAO Severny Bank of RF			23,039	
ZAO Raiffeisenbank	16,302			5,833
OAo CIB Euroallience			2,945	
CB Ogni Moskv (Moscow Lights)			40,714	
Main financial division of the Vladimir region	7,575	595		3,549
OAo UralSib			70,000	
OAo Alfa-Bank				572,823
Russian Development Bank				138,989
<b>Loans from organizations, total:</b>	<b>132,247</b>	<b>102,945</b>	<b>5,852</b>	<b>29,640</b>
including:				
Promissory notes center-service			2,490	
OAo Promtechmontazh			2,000	
JSC Svyazinvest	29,000		1,362	29,622
General public	103,247	102,945		18
<b>Bonds issued</b>	<b>2,631,012</b>	<b>7,642,858</b>	<b>93,052</b>	<b>990,344</b>
<b>Bills of exchange issued (ZAO RTC-Invest, OAo Vneshtorgbank, Brokerage North-Western investment center)</b>		<b>763,175</b>	<b>606,082</b>	<b>1,410,000</b>
<b>TOTAL:</b>	<b>6,727,159</b>	<b>12,237,350</b>	<b>3,988,610</b>	<b>6,590,118</b>

For the period from January through March 2005 the Company repaid bills of exchange totaling 825 million rubles through ZAO Russian Industrial Bank.

In 2004 the Company signed a number of credit facility agreements. More significant agreements (with the raised amount at least 400,000 thousand rubles) are listed in the table below:

#	Execution date	Lender	Credit amount	Currency	Maturity date	Interest rate, p.a.	Security	Security value
1.	20.12.04	ACB Promsvyazbank ZAO	400,000	Russian ruble	21.12.09	14.5	telecom equipment	734,438
2.	05.04.04	Investment Bank Trust OAo (JSC)	500,000	Russian ruble	05.04.05	14	no security	
3.	26.09.03	GUTA-Bank	450,000	Russian ruble	25.09.05	15	no security	
4.	18.11.03	Middle Russia Saving Bank of RF	70,000	Russian ruble	16.11.04	13.5	telecom equipment	82,210



**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

5.	21.11.03	Middle Russia Saving Bank of RF	70,000	Russian ruble	19.11.04	13, 5	telecom equipment	79,593
6.	07.08.03	Middle Russia Saving Bank of RF	50,000	Russian ruble	04.02.05	14	telecom equipment	58,496
7.	07.08.03	Middle Russia Saving Bank of RF	50,000	Russian ruble	04.02.05	14	telecom equipment	57,099
8.	11.08.03	Middle Russia Saving Bank of RF	50,000	Russian ruble	07.02.05	14	telecom equipment	58,040
9.	11.08.03	Middle Russia Saving Bank of RF	50,000	Russian ruble	07.02.05	14	telecom equipment	57,029
10.	11.08.03	Middle Russia Saving Bank of RF	60,000	Russian ruble	07.02.05	14	telecom equipment	69,667
11.	29.08.03	Middle Russia Saving Bank of RF	150,000	Russian ruble	22.02.05	14	telecom equipment	172,116
12.	31.10.03	Middle Russia Saving Bank of RF	80,000	Russian ruble	22.02.05	14	telecom equipment	91,284
13.	31.10.03	Middle Russia Saving Bank of RF	80,000	Russian ruble	23.02.05	14	telecom equipment	91,426
14.	28.10.03	Middle Russia Saving Bank of RF	35,000	Russian ruble	22.02.05	14	telecom equipment	39,674
15.	11.11.03	Middle Russia Saving Bank of RF	90,000	Russian ruble	22.02.05	14	telecom equipment	100,848
16.	11.11.03	Middle Russia Saving Bank of RF	90,000	Russian ruble	22.02.05	14	telecom equipment	100,918
17.	11.11.03	Middle Russia Saving Bank of RF	90,000	Russian ruble	22.02.05	14	telecom equipment	100,961
18.	05.12.03	Middle Russia Saving Bank of RF	85,000	Russian ruble	06.06.05	14	telecom equipment	98,296
19.	05.12.03	Middle Russia Saving Bank of RF	85,000	Russian ruble	22.05.05	14	telecom equipment	97,853
20.	05.12.03	Middle Russia Saving Bank of RF	85,000	Russian ruble	12.05.05	14	telecom equipment	117,694
21.	09.12.03	Middle Russia Saving Bank of RF	85,000	Russian ruble	16.05.05	14	telecom equipment	97,007
22.	09.12.03	Middle Russia Saving Bank of RF	85,000	Russian ruble	06.05.05	14	telecom equipment	97,025
23.	09.12.03	Middle Russia Saving Bank of RF	75,000	Russian ruble	21.04.05	14	telecom equipment	87,270
24.	18.12.03	Middle Russia Saving Bank of RF	418,000	Russian ruble	04.12.08	14, 5	telecom equipment	488,154
25.	24.12.03	Middle Russia Saving Bank of RF	498,000	Russian ruble	04.12.08	14, 5	telecom equipment	573,655
26.	26.12.03	Middle Russia Saving Bank of RF	412,000	Russian ruble	04.12.08	14, 5	telecom equipment	476,208
27.	22.01.04	Middle Russia Saving Bank of RF	45,000	Russian ruble	20.01.05	13, 5	telecom equipment	49,279
28.	29.01.04	Middle Russia Saving Bank of RF	130,000	Russian ruble	04.12.08	14, 5	telecom equipment	150,511
29.	16.02.04	Middle Russia Saving Bank of RF	542,094	Russian ruble	05.12.08	14, 5	telecom equipment	630,596
30.	24.02.04	Middle Russia Saving Bank of RF	100,980	Russian ruble	22.02.05	13, 5	telecom equipment	116,191

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

31.	03.06.04	Middle Russia Saving Bank of RF	100,000	Russian ruble	02.06.05	12	telecom equipment	118,142
32.	12.03.04	Middle Russia Saving Bank of RF	19,500	Russian ruble	23.08.05	14	telecom equipment	25,430
33.	10.06.04	Middle Russia Saving Bank of RF	60,000	Russian ruble	01.06.09	14	telecom equipment	69,840
34.	10.06.04	Middle Russia Saving Bank of RF	65,000	Russian ruble	01.06.09	14	telecom equipment	74,598
35.	29.06.04	Middle Russia Saving Bank of RF	60,000	Russian ruble	28.06.05	12	telecom equipment	70,943
36.	13.08.04	Middle Russia Saving Bank of RF	100,000	Russian ruble	12.08.05	12	telecom equipment	113,639
37.	01.10.04	Middle Russia Saving Bank of RF	43,000	Russian ruble	23.09.09	14	telecom equipment	50483
38.	01.10.04	Middle Russia Saving Bank of RF	570,000	Russian ruble	23.09.09	14	telecom equipment	610,191
39.	21.12.04	Middle Russia Saving Bank of RF	100,000	Russian ruble	16.06.06	12	telecom equipment	104,168
40.	21.12.04	Middle Russia Saving Bank of RF	98,000	Russian ruble	16.06.06	12	telecom equipment	100,992

In 1995-1997 the Ministry of Finance of the Russian Federation granted the Company long-term financing for the purpose of telecommunications equipment purchasing from overseas suppliers. Vnesheconombank was the crediting agent under the financing scheme.

*As on December 31, 2003 the Company's outstanding obligations toward Vnesheconombank denominated in foreign currency totaled 13,775 thousand Euros. The obligations are reflected as liabilities in the financial statements of the Company (lines 511, 512, 612, 520, 621 of the balance sheet) in the amount of 260,283 thousand rubles.*

*These obligations shall be met (repaid) by the Company in foreign currency or Russian roubles at the exchange rate as on the payment date depending on terms and conditions of the debt instruments; and at the Company's discretion if such selection of repayment currency is stipulated by relevant debt instrument. The Company intends to repay all debt in Russian rubles. The amount of this debt translated into Russian rubles at the CB exchange rate effective on the reporting date (December 31, 2003) totaled 507 262 thousand rubles.*

*In 2004 the Company recalculated the outstanding debt to Vnesheconombank expressed in the conditional units and payable in Russian rubles related to Orlovski, Ryazanski, Belgorodski, Voronezhski and Kostromskoy subsidiaries at the CB exchange rate as on December 31, 2004. The recalculation amount was 147,705 thousand rubles. Thus the debt to Vnesheconombank with respect to these subsidiaries as on December 31, 2004 shown in lines 511, 611 of the balance sheet amounted to 219,888 thousand rubles, while the commission charged by MinFin and fines as on December 31, 2004 shown in line 626 of the balance sheet totaled 67,781 thousand rubles.*

### **Bond issues**

In June 2004 the Company registered series 04 issue of documentary coupon bonds with the nominal value of 1,000 rubles each. The coupon interest rate was 13.8% p.a. Payments of the first coupon are due on the 183<sup>rd</sup> day as of the start of the bond placement, the remaining coupons are payable after each 183 days. The coupon interest rate is set at 13.8% p.a. The bonds mature in August 2009, on the 1830<sup>th</sup> day after the start of placement.

According to terms and conditions of the prospectus of the series 04 bond issue the Company is entitled to purchase its bonds by entering into bond sale-purchase contracts in accordance with the

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

Russian law, including purchases based on public irrevocable offers of the issuer published by mass media. The date for purchasing series 04 bonds by the Company is November 16, 2006.

Proceeds from the series 04 bond issue will be used to finance investment activities and replacement of more costly borrowed money.

According to the prospectus terms and conditions the first coupon is payable on February 16, 2005. The amount of the coupon payment will total 389,027 thousand rubles. The amount of coupon payment per one bond is 69.19 rubles.

**Bills of exchange**

*In 2004 the Company issued bills of exchanges with the total value being 2,703,565 thousand rubles. The amount of discount is 333,054 thousand rubles. The debt related to the bills of exchange is reflected in section IV Long-term liabilities of the balance sheet in line 512 Loans to the amount of 763,175 thousand rubles and in line 612 Loans of section V Short-term liabilities to the amount of 1,410,000 thousand rubles.*

**Schedule of repayment of loans and credits as on December 31, 2004:**

Description	To be repaid
in 2006	3,234,602
in 2007	148,054
in 2008	2,015,140
in 2009	6,797,635
beyond 2010	41,919
<b>TOTAL:</b>	<b>12,237,350</b>

The Company expenses related to obtaining and using loans and credit facilities were charged to:

Description	2004	2003
Ø operating expenses	1,793,964	841,501
Ø cost of investment assets	213,106	57,426
<b>TOTAL:</b>	<b>2,007,070</b>	<b>898,927</b>

The operating expenses and revenues include the value of the their bond issue repurchase offer totaling 19,272 thousand rubles, accounting for premium of the bond selling (purchase) price to the par bond par value.

**6.15. Deferred tax liabilities (item 515 of the balance sheet)**

*Flow of deferred tax liabilities in 2004:*

<i>Balance on January 1, 2004</i>	<i>(395,126)</i>
<i>Created in the reporting period for taxable temporary differences</i>	<i>(191,242)</i>
<i>Repaid to reduce tax payments</i>	<i>4,731</i>
<b><i>Balance as on December 31, 2004</i></b>	<b><i>(581,637)</i></b>

**6.16. Other long-term liabilities (Item 520 of the balance sheet)**

Description	On January 1, 2004	As on December 31, 2004
Account settlements with suppliers and		

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

contractors	2,179,066,	3,313,376
Long-term part of debt on tax and duties payment	42,521	38,071
<b>TOTAL:</b>	<b>2,221,587</b>	<b>3,351,447</b>

*Compared to the previous year the long-term accounts payable grew by 1,129,860 thousand rubles, mainly due to the increase of concluded lease contracts under which the equipment (property) is on the accounts of the lessee and due to the issued bills of exchange to secure payments to IBM Eastern Europe/Asia LLC.*

*By December 31, 2004 the Company restructured accounts payable owned to the budget in the amount of 10,534 thousand rubles in connection with the principal and 27,537 thousand rubles with respect to due tax fines and delayed payment charges.*

**6.17. Accounts payable**

Major creditors (debt over 3 million rubles – balance sheet item 621) are listed below:

<b>Creditor</b>	<b>Debt as on December 31, 2004</b>
Iskratel	161,753
Alcatel	11,064
Vado-International-C	7,128
ZAO Borisoglebsk telecommunications systems	3,911,
Italtel	16,759
Stroyengineering LLC	13,211
Digital Telecommunications Systems LLC	35,879
StroyStarSvyaz LLC	7,329
ZAO Sokol-ATS	68,057
Intracom	105,811
JSC Giprosvyaz	14,585
JSC RTC-Leasing	1,180,848
Promsvyazleasing LLC	68,416
ZAO Rusleasingsvyaz	12,293
OJSC Rostelecom	191,718
ZAO Oskoltelecom	7,085
ZAO TEL-MTK	23,788
ZAO NTC COMSET	14,403
ZAO TELECOM-MTK	218,616
OAo Soyuztelephonestroy	109,007
OAo Svyazstroy-7	111,816
Telecard-2 LLC	9,002
ZAO Centersvyazinform	77,207
ZAO TransTelecom Company	3,343
Mashpriborcom LLC	14,477
OAo Technoserv-AS	38,965
Stroysvyazmontazh	3,194
Svyazremstroy	6,284
Svyazstroy-1	152,047
ZAO RusTelCom	4,444
PMK-710 LLC	8,668
RTS Plus LLC	12,626

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

Lyuberetski LPTUS	4,655
NordWest Group S.Petersburg	3,743
Granit – radiotelephone system	10,571
American Appraisal (AAP)	3,124
IBM Eastern Europe/Asia	718,728
Amrita TLF LLC	3,160
ZAO Telecom-West-Service	4,513
Interregional Telecommunications Company LLC	11,724
InterGrant LLC	18,027
ZAO Hewlett-Packard AO	3,747
Intercross LLC	3,081
Variant LLC	7,089
ZAO Countryside Telecommunications Company	159,010
STTS LLC	8,378
Promsvyazdesign LLC	6,175
OAo TeleInCom-PK	3,949
OAo NIIsuperEVM (supercomputer)	3,771
Other	482,206
<b>TOTAL</b>	<b>4,169,385</b>

*Settlements with budget in respect of taxes and duties (item 625 of the balance sheet):*

<b>Description</b>	<b>On January 1, 2004</b>	<b>As on December 31, 2004</b>
VAT settlements	207,473	254,937
Profit tax settlements	134,664	333,505
Natural person income tax	35,077	968
Property tax	95,475	150,701
Transportation tax	711	1,975
Land tax	451	136
Unified imputed income tax	98	116
Sales tax		5
Other taxes and duties	46,261	2,785
<b>TOTAL:</b>	<b>520,210</b>	<b>745,128</b>

*Increase in the accounts payable related to taxes and duties was caused by growing debt with respect to profit tax and property tax.*

*Other accounts payable (item 626 of the balance sheet):*

<b>Description</b>	<b>On January 1, 2004</b>	<b>As on December 31, 2004</b>
Settlements with advance holders	661	284
Settlements with employees on other transactions	373	238
Settlements with various creditors, including:	598,059	815,817
in respect of deposited funds	1,647	1,625
deferred tax (VAT and sales tax)	411,521	567,815
property and personal insurance	2,225	6,193
claims settlements	18,208	23
other	164,458	240,161

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Explanatory Notes to significant balance sheet items

(Russian Rubles in thousands, unless explicitly stated otherwise)

<b>TOTAL:</b>	<b>599,093</b>	<b>816,339</b>
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*Compared to 2003 accounts payable grew by 217,248 thousand rubles, mainly due growth of debt for the deferred VAT.*

**6.18. Deferred revenues (item 640 of the balance sheet)**

<b>Description</b>	<b>On January 1, 2004</b>	<b>As on December 31, 2004</b>
Budgetary funds for special purposes financing, total:	9,455	4,094
including		
- civil defense	167	
- budgetary funds in cash for other purposes	9,288	4,094
Special purpose financing (except budgetary funds)	6,682	4,929
Deferred revenues, total:	448,361	451,898
including:		
- assets received free of charge	280,976	281,426
- special purpose financing	139,004	167,575
- other deferred revenues	28,381	2,897
<b>TOTAL:</b>	<b>464,498</b>	<b>460,921</b>

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

Notes to significant items of the income statement

(Russian Rubles in thousands, unless explicitly stated otherwise)

## **7. Notes to significant items of the profit and loss account**

### **7.1. Revenues from ordinary activities**

*Revenues from sales of products, goods, rendering services and carrying out of works less VAT, excise duties and other mandatory payments):*

<b>Description</b>	<b>2004</b>	<b>2003</b>
Domestic long-distance and international telephone service	9,577,524	8,936,428
Urban and rural telephone service	10,609,325	8,730,401
Radio communications, radio broadcasting, TV, satellite communications	40,346	29,997
Wireline broadcasting	644,731	513,592
Wireless communications	315,998	351,917
Document transmission	296,582	282,216
Revenues from new telecom services	924,977	570,847
Revenues from telecom operators	2,161,281	1,121,845
Other telecom services (core business activities)	32,699	36,338
Revenues from other realizations (non-core activities)	359,653	316,426
<b>TOTAL:</b>	<b>24,963,116</b>	<b>20,890,007</b>

Revenues from telecommunications services grew by 4,073,109 thousand rubles.

*One of the causes of the revenue growth is increased rates (tariffs) charged for local communications services and wireline broadcasting.*

*Tariff growth as of October 1, 2004 for provision of a local telephone connection across JSC CenterTelecom as a whole was on average 136% for the residential and 142% for business sector.*

*Tariff growth as of April 16, 2004 for wireline broadcasting (using radio broadcast connection) across JSC CenterTelecom as a whole was on average 130% for all types of customers.*

*Growth of revenues generated by telecommunications services was also caused by enhanced volume of all main services rendered, new services and services rendered to other operators.*

*The number of subscriber lines (basic phones) was up by 345,006 lines, including 307,655 lines on urban networks 37,351 lines on rural networks.*

*Over 2004 the data amount transmitted by the Company using dedicated lines was doubled, the growth of data volume transmitted using dial-up access was 1.5 times, IP-telephony traffic grew more than 3.5 times in 2004.*

*Volume of services related to provisioning and operations of ports, circuits, tie-lines and trunk links for alternative operators was also up.*

*Local traffic from subscribers of interconnected operators was also on the increase.*

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Notes to significant items of the income statement

(Russian Rubles in thousands, unless explicitly stated otherwise)

*One of the factors driving the revenue growth is the implementation as of August 2003 of a new arrangements for accounting and settlements with OJSC Rostelecom, distinguishing between payments for international telephone traffic carried on Rostelecom networks and payments for incoming traffic termination. As in 2004 the settlements were carried out from the beginning of the year, the Company managed to receive 689.5 million rubles more revenues on the item Revenues from OJSC Rostelecom.*

**Non-cash settlements**

*In 2002 and 2003 a part of the Company revenues from rendering services, sales of goods, products was received under contracts stipulating non-cash consideration (payments).*

<b>Description</b>	<b>2004</b>	<b>2003</b>
Total number of organizations involved in barter transactions:	3,403	3,471
Revenues from these transactions – total: including:	<b>1,412,038</b>	<b>726,354</b>
OJSC Rostelecom	1,170,947	464,757
ZAO Rostelegraph	41,362	36,417
FGUP Postal service of Russia	14,526	12,843
Construction companies	21,374	53,550
Energy utilities and heat supply grid	6,057	6,197
Moscow telecommunications corporation (OAO COMCOR)	13,097	4,314
ZAO CenterTelecomService of the Moscow region	10,401	199
ZAO Telecom MTK		6,163
OAO Gastelecom		6,107
North-Western Subsidiary of OAO Megafone	5,471	2,462
ZAO Yaroslavl GSM	4,905	
Lightream LLC	4,501	2,174
Vladimirski Payphone LLC	2,593	52
Property Management Committee of Krasnogorsk	4,077	
ZAO Centersvyaz	1,931	
ZAO Bryanskies Cellular Networks	1,347	1,303
Offsetting salaries against payments for telecom services by employees	3,024	920
ZAO Open Communications	1,034	922
Orbis LLC	3,001	2,377
Recom LLC	2,470	837
GUP Bryanskies Engineering Grids	578,	3,985
OAO Elikson		1,745
Kurski APZ-20		1,066
OAO Elektroagregat		1,025
Other companies	99,342	116,939
Revenues under contracts stipulating non-cash payments – total as percentage to the total revenues	5.66%	3.48%
Revenues under contracts stipulating non-cash payments with affiliated persons, total as a	4.75%	2.24%



**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Notes to significant items of the income statement

(Russian Rubles in thousands, unless explicitly stated otherwise)

percentage of the total revenues in the reporting year		
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Pricing of services rendered, performed works, sold goods was determined by the Company on normal business terms and conditions.

## 7.2. Ordinary activities expenses

*Expenses incurred in sales of products, goods, rendering services, carrying out works (less VAT, excise duties and other mandatory payments):*

<b>Description</b>	<b>2004</b>	<b>2003</b>
Payroll costs	6,387,314	5,168,993
Social insurance allocations	2,046,042	1,703,826
Fixed asset depreciation	2,555,221	1,668,127
Material costs	1,291,366	1,257,472
Electric power	358,877	308,980
Settlements for telecom operators' services (except OJSC Rostelecom)	540,414	499,033
Expenses for services of Rostelecom	3,119,074	2,140,925
Services of third parties	1,666,450	1,371,874
Taxes and duties included in the ordinary activities expenses	77,764	60,363
Other expenses	1,659,586	1,407,786
<b>TOTAL:</b>	<b>19,702,108</b>	<b>15,587,379</b>

Growth of payroll costs was caused by the inflationary pressure, and due to the increase in the minimal rate of salaries from 1,500 rubles to 1,700 rubles, according to the collective employment contract.

Fixed asset depreciation charges grew mainly due to a large number of leasing contracts concluded by the Company, as leased equipment is carried on the lessee's accounts.

Growth in material costs was caused by increased charges applied by suppliers; while costs of electric power supplies grew both due to higher rates and enhanced volumes of consumed power.

Internet network access costs are the principal contributor to the growth of costs related to settlements for telecom operators' services, caused by growing Internet traffic and consequently by growing revenues from Internet services.

Growth of costs related to settlements with OJSC Rostelecom is mainly connected with growing international traffic and due to the implementation in August 2003 of a new system distinguishing payments for carrying international traffic on Rostelecom network and termination fees for incoming traffic, while the system was already in place in the beginning of 2004.

Growth of costs related to services of third parties was caused by growing charges for post-warranty maintenance of equipment, growing transportation costs (both resulting from higher rates and increased number of machine\*hours), and higher costs of guarding.

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Notes to significant items of the income statement

(Russian Rubles in thousands, unless explicitly stated otherwise)

Other expenses grew mainly due to the increased expenses on the centralized property insurance (primarily, leased equipment is insured), and expenses on purchases and writing off software and database products.

**7.3 Other operating income and expenses:**

*Break down of other operating income:*

<b>Description</b>	<b>2004</b>	<b>2003</b>
Income from sale and other retirement of other assets	508,731	756,530,
Income from sale and other retirement of other fixed assets	46,133	10,578
Income from joint activities	5,778	6,943
Other operating income	6,809	4,333
of which		
restoration of provisions for devaluation of financial investments	2,564	
adjustment of investment value up to the market price	2,514	3,453
other	1,731	880
<b>TOTAL:</b>	<b>567,451</b>	<b>778,384</b>

*In 2004 the Company received revenues from joint activities within the framework of a partnership totaling 2,589 thousand rubles (4,069 thousand rubles in 2003).*

*The Company carries out joint activities with Topsnabinvest LLC and Bowling Center LLC in Ivanovo under a partnership agreement to provide radio-telephone services using CDMA. Agreement # 79/98 concluded on November 29, 2002 for 8 years.*

*The Company's interest in the common contract obligations is 30%, the contribution made under the agreement is 6,491 thousand rubles. The Company incurred expenses in 2004 under the agreement of 3,190 thousand rubles, receiving income of 5,778 thousand rubles.*

*Distribution of financial results under a partnership agreement is carried out quarterly between the partners pro rata to their interests. In 2004 the Company received from the joint activities with Topsnabinvest LLC and Bowling Center LLC profit amounting to 2,589 thousand rubles (4,069 thousand rubles in 2003), which is shown in the operating revenues/expenses of the Company.*

*Break down of other operating expenses:*

<b>Description</b>	<b>2004</b>	<b>2003</b>
Expenses related to sales and other retirement of assets	270,743	750,483,
Expenses related to sales and other retirement of fixed assets	51,715	30,457,
Allocations to doubtful debt provisions	977,918	530,253
Allocations to provisions for devaluation of financial investments	4,587	3,486,
Expenses for taxes and duties	537,397	377,693
Expenses for services of lending organizations	183,524	111,200

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Notes to significant items of the income statement

(Russian Rubles in thousands, unless explicitly stated otherwise)

Expenses related to having interests in charter capitals of other organizations	2	0
Expenses related to participation in joint activities	3,190	2,873,
Other operating expenses	173,227	72,305
of which:		
preparation of a memorandum, bond issue	97,512	
maintenance of mobilization resources and long-term storage items/sites	7,930	6,257
other	67,785	66,048
<b>TOTAL:</b>	<b>2,202,303</b>	<b>1,878,750</b>

**7.4. Non-sales revenues and expenses:**

*Non-sales revenues break down:*

<b>Description</b>	<b>2004</b>	<b>2003</b>
Fines, late payment charges, damages for non-performance of contracts, receipts to indemnify losses	23,367	34,081
Profit of previous years, revealed in the reporting year	215,155	26,085,
Exchange rate difference adjustments	192,629	245,922
Translation of exchange rates	22,311	16,523
Profit from written down accounts payable for which limitation period expired	4,744	4,655
Assets received free of charge	29,023	35,262
Value of equipment found in the course of inventory taking	415,312	13,371
Other	31,823	21,082
of which		
rebate of costs to customers eligible for benefits		13,264
profit from writing off accounts payable according to court order	13,579	
rebate of expenses incurred on ADRs placement	6,516	
other	11,728	7,818
<b>TOTAL:</b>	<b>934,364</b>	<b>396,981</b>

*Break down of non-sales expenses:*

<b>Description</b>	<b>2004</b>	<b>2003</b>
Fines, late payment charges, damages for non-performance of contracts, receipts to indemnify	41,696	44,824

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

Notes to significant items of the income statement

(Russian Rubles in thousands, unless explicitly stated otherwise)

losses		
Loss of previous years, revealed in the reporting year	136,218	73,064,
Exchange rate difference adjustments	178,769	306,755
Translation of exchange rates	254,005	89,196
Written down accounts receivable	6,588	676
Value of property revealed in the course of inventory taking	961	27
Expenses for charity and sponsor aid, cultural events and other similar festivities	94,682	102,598
Membership fees in associations, not-for-profit partnerships	296,014	72,181
Payments to employees not included into ordinary activities expenses	518,415	417,967
Expenses for mobilization and civil defense	28,909	18,997
Fines and late payment charges for taxes and duties	4,627	6,906
Other	342,937	289,009
of which:		
consulting and auditor services, training	37,980	52,314
non-government pension funds, allocations to social needs and trade unions	181,150	164,145
remuneration payable to members of the Board of Directors and Management Board (not on the list of employees)	7,512	
expenses on writing off non-production tangible items	39,978	22,762
business expenses unrelated to production activity	16,924	6,404
non-deductible VAT	8,610	7,028
property registration expenses	4,175	258
technical certificates, registration fees	3,896,	805
ownership costs of non-production property	3,879	2,638
government duties	3,237	
other	35,596	32,655
<b>TOTAL:</b>	<b>1,903,821</b>	<b>1,422,200</b>

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Notes to significant items of the income statement

(Russian Rubles in thousands, unless explicitly stated otherwise)

**7.5. Extraordinary income and expenses**

*Break down of extraordinary income:*

<b>Description</b>	<b>2004</b>	<b>2003</b>
Insurance indemnity	1 290	3 097
Other receipts due to extraordinary circumstances	61	
<b>TOTAL:</b>	<b>1 351</b>	<b>3 097</b>

*Break down of extraordinary expenses:*

<b>Description</b>	<b>2004</b>	<b>2003</b>
Cost of lost tangible inventory items	48	1 825
Loss from writing down fixed assets	9	4 583
Expenses on rescue operations during natural disasters and other emergencies	240	1 199
<b>TOTAL:</b>	<b>297</b>	<b>7 607</b>

**7.6. Profit tax expenses**

*The Company identified in 2004 the following contributors to the profit tax:*

<b>Description</b>	<b>Amount</b>	<b>Tax rate</b>	<b>Amount</b>	<b>Component of the profit tax</b>
Balance sheet profit	971,956	24%	(233,270)	Conditional expenses (income) for profit tax
Taxable temporary differences:	778,745	24%	186,899	Deferred tax liabilities
including:				including:
- differences appeared	787,227	24%	188,935	- deferred tax liabilities created
- differences repaid	8,482	24%	2,036	- deferred tax liabilities repaid
Deductible temporary differences	499,006	24%	(119,761)	Deferred tax asset
including:				including:
- differences appeared	524,494	24%	(125,878)	- deferred tax assets created
- differences repaid	25,488	24%	(6,117)	- deferred tax assets repaid
Permanent taxable differences	1447,173	24%	(347,322)	Permanent tax liability
Tax base according to tax declaration	2,139,390	24%	(513,453)	Current tax
Benefit related to profit tax			5,000,	Current tax Permanent tax liability
Tax amount for previous years:				
including:				
- more accurate permanent			1,346	Current tax

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

Notes to significant items of the income statement

(Russian Rubles in thousands, unless explicitly stated otherwise)

difference of the previous period				Permanent tax liability
- more accurate permanent taxable temporary difference of the previous period			(172)	Current tax Deferred tax liability
- more accurate deductible temporary difference of the previous period			(72)	Current tax Deferred tax assets

*The Company's tax profit expenses for 2004 were:*

*Total:* (574,245)

*including:*

- conditional profit tax expenses (233,270)

- permanent tax liabilities (340,975)

*In the profit and loss account the Company's profit tax expenses for 2004 are shown as the aggregate of the amounts:*

***Total*** (574,245)

*including*

- current tax (507,351)

- deferred tax liabilities (186,727)

- deferred tax assets 119,833

**Permanent differences resulted in adjustment of the conditional profit tax, total**

**1,518,070**

*including:*

Payments to employees not included in the ordinary activity costs and expenses 518,415

Expenses on not-for-profit partnership 292,188

Expenses of previous years revealed in the reporting (tax) period which in principle are not expenses for the taxation purposes 92,929

Charity activity, membership fees paid to not-for-profit organizations 70,727

Expenses included in costs but not accepted for profit taxation purposes 33,554

Social expenses not related to payments to personnel 33,407

Expenses for holding cultural events and festivities 27,781

Loss of the reporting period due to activities related with using services of ancillary production facilities and sites (according to Article 275.1 of the Tax Code of the Russian Federation) 25,821

Funds transferred to trade-unions 21,076

Depreciation charged for fixed assets acquired using special purposes budgetary funds, and for fixed assets received for free of charge usage 11,524

Depreciation charges in the part of fixed asset revaluation carried out on January 1, 2002 and not taken into account for taxation purposes 12,900

Interest charged by a taxpayer-borrower from a lender in excess of amount recognized as expenses in taxation purposes according to Article 269 of the Tax Code 10,623

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Notes to significant items of the income statement

(Russian Rubles in thousands, unless explicitly stated otherwise)

Difference between the depreciated value of a fixed asset for accounting and taxation purposes for retiring fixed asset	10,113
Loss related to free-of-charge transfer of property and expenses related to such transfer	7,279
Written off accounts receivable	6,360
Cost of written off tangible items and expenses related to the writing off	6,133
Surplus of daily travel allowance expenses over the norm	5,896
Taxes not accepted for taxation purposes	5,772
Allocated provisions for devaluation of financial investments	4,587
Fines, late payment charges for breaches of tax legislation	4,627
Expenses on voluntary insurance of employees except fee, specified in item 16 of Article 255	1,955
Other taxable permanent differences	314,403

**Permanent deductible differences causing adjustment of the conditional profit tax, total**

**70,897**

including:

Income from restoration of doubtful debt provisions related to accounts receivable included in the base of the transition period	40,638
Income equaled to the depreciation charged on property received for free-of-charge receipts, not taxable by profit tax at the moment of receipt	16,833
Income of previous years revealed in the reporting (tax) period which is not considered income for taxation purposes	5,898,
Income from restoration of earlier made provisions for devaluation of financial investments	5,078
profit from activities transferred to taxation under imputed tax	1,244
Other deductible permanent differences	1,206

**Temporary taxable differences (given the repayments) resulted in adjustment of the conditional profit tax, total:**

**778,745**

including:

difference in the method of calculation of depreciation and original cost of fixed assets in the bookkeeping and tax accounting	772,627
difference in the methods of deferred expenses in bookkeeping and tax accounting	6,118

**Temporary deductible differences (given the repayments) resulted in adjustment of the conditional profit tax, total:**

**499,005**

including:

Difference between expenses on doubtful debt provisions for the purposes of bookkeeping and tax accounting (except accounts receivable charged to the base of the transition period)	345,828
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**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**  
Notes to significant items of the income statement

(Russian Rubles in thousands, unless explicitly stated otherwise)

Recalculation of debt on loans and credits at the reporting date	145,078
Free-of-charge receipts taxable at the moment of the receipt, but according to accounting rules are included in the deferred revenues	16,441
Loss from realization of fixed assets	1,620
Loss according to the base of the transition period	(9,962)

**7.7. Net profit of the reporting period**

*In 2003 the net profit (loss) of the reporting period was determined according to accounting data based on the principle that profit tax expenses deductible from pre-tax profit are defined as the amount of the conditional profit tax expenses adjusted for the amount of permanent tax liabilities and assets.*

*Net profit (loss) of the reporting period in the profit and loss account for 2004 was calculated on the premise that the profit tax expenses deductible from pre-tax profit were formed as the aggregate of the amounts shown in items Deferred tax assets, Deferred tax liabilities and Current profit tax.*

**7.8. Earnings per share**

*Basic profit per share reflects a part of the reporting year profit due to shareholders – owners of ordinary shares. It is calculated as the ratio of the basic profit of the reporting year to the average weighted number of outstanding ordinary shares over the year.*

*Basic profit of the reporting year is equal to the net profit (item 190 Profit and loss account) less dividend on preference shares for 2004 in the amount recommended by the Board of Directors, but not approved by meeting of shareholders as on the date of signing the accounting reports for 2004.*

*When calculated the average weighted number of ordinary outstanding shares in the reporting year the Company shares purchased from shareholders were deducted.*

Description	2004	2003
Basic profit of the reporting year, thousands rubles	357,940	1,331,894
Averaged weighted number of outstanding ordinary shares in the reporting year, thousand shares	1,578,007	1,578,007
Basic profit per share, rubles	0.23	0.84

*In 2004 the Company did not undertake additional share issues and did not have securities to be converted into additional ordinary shares according to terms and conditions of the securities issue; nor there was an event involving increase of the number of ordinary shares. So the Company does not calculate diluted profit per share.*



**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

**8. Affiliated persons**

*In the explanatory notes the Company discloses material information regarding affiliated persons. The complete list of affiliated persons of the Company is given below:*

- Dagestan joint-stock company svyazi&information;
- Private JSC (ZAO) Mobile telecommunications;
- ZAO Scientific and Technical Center Comset;
- ZAO Registrator-Svyaz;
- ZAO RTC-Invest;
- ZAO RusLeasingSvyaz;
- ZAO Startcom;
- ZAO FC Svyaz;
- ZAO Football Club Zenit;
- Non-government Pension Fund Telecom-Soyuz;
- Not-for-profit Partnership Center for Telecommunications Development Studies;
- JSC (OAO) Giprosvyaz;
- OAO Grinding Plant Ilyich;
- OAO ACB Link-Bank;
- OAO ACB Svyaz-Bank;
- JSC VolgaTelecom;
- JSC Far Eastern Telecommunications Company;
- JSC Kostromskaya City Telephone Network;
- OAO Moscow Metropolitan telephone network;
- OAO Polimerbyt;
- JSC North-Western Telecom;
- JSC Sibirtelecom;
- JSC Uralsvyazinform;
- OAO Central Telegraph;
- OAO Southern Telecommunications Company;
- Open Joint-Stock Company for long-distance and international telecommunications Rostelecom;
- OAO RTComm.RU;
- Private Insurance joint-stock company Medexpress;
- Russian Telecommunications History Foundation;
- OAO Investitsionnaya Kompaniya Svyazi;
- ZAO CenterTelecomService;
- ZAO Belgorodskaya Cellular Communications;
- ZAO VladimirTeleservice;
- ZAO Smolenskaya Cellular Communications;
- ZAO Telecom of the Ryazan region;
- ZAO TeleRossVoronezh;
- ZAO CenterTelecomService of the Moscow region;
- VladPage LLC;
- TelecomSroy LLC;
- Vladimirski Payphone LLC;
- MobilCom LLC;
- TverTelecom LLC;
- Telecom Terminal LLC;
- Teleport Ivanovo (TPI) LLC;
- ZAO Saint-Petersburg Payphones;
- OAO National Payphone Network;
- JSC Telecominvest;

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

- Trunksvyaz LLC;
- Manufacturing and implementation enterprise Svyaz-Service-Irga;
- OAO Russian Telecommunications Network;
- OAO Telecommunications company Rinfotels;
- OAO AEROCOM;
- ZAO SC KOSTARS;
- OAO Giprosvyaz Siberia;
- OAO Vniizarubezhgeologia;
- OAO Construction Company 615;
- OAO Aviacompany Voronezhavia.

***The parent company***

*The Company is controlled by JSC Svyazinvest, owning 38.01 percent of the Company Charter capital and 50.69 percent of the voting shares. The remaining 49 percent of the voting shares is distributed among a vast group of shareholders. JSC Svyazinvest is the final parent company of the Group of related organizations, of which the Company is a member.*

***Sales of products to affiliated persons***

*In the reporting year the Company rendered services and sold products to the following affiliated persons:*

<b>Organization</b>	<b>Relation</b>	<b>Type of sales</b>	<b>Pricing</b>	<b>2004</b>	<b>2003</b>
OJSC Rostelecom	A subsidiary of JSC Svyazinvest	Traffic carrying services	Accounting rates and tariffs are regulated by the Ministry for Antimonopoly Policies of the RF	1,176,272	522,488
ZAO Mobile Telecommunications	A subsidiary of JSC Svyazinvest	Telecom services	Contractual	50	56
ZAO Registrator-Svyaz	Belongs to the same group as the Company	Telecom services	Contractual	64	36
OAO ACB Svyaz-bank	Belongs to the same group as the Company	Telecom services	Contractual	1,645	1,443
OAO Volga-Telecom	A subsidiary of JSC Svyazinvest	Telecom services	Contractual	38	79
OAO Kostromskaya City Telephone Network	A subsidiary of JSC Svyazinvest	Telecom services	Contractual	524	0
OAO North-Western Telecom	A subsidiary of JSC Svyazinvest	Telecom services	Contractual	102	297
OAO	A subsidiary of	Telecom services	Contractual	96	0

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

Uralsvyazinform	JSC Svyazinvest				
OAo Central Telegraph	A subsidiary of JSC Svyazinvest	Telecom services	Contractual	12,207	7,927
OAo RTComm.RU	Belongs to the same group as the Company	Telecom services	Contractual	315	110
ZAO CenterTelecom Service	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	6,257	1,360
ZAO Belgorodskaya Cellular Communications	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	11,831	1,314
ZAO Vladimir- Teleservice	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	988	759
ZAO Smolenskaya Cellular Communications	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	6,082	2,155
ZAO Telecom of the Ryazan region	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	1,015	990
ZAO TeleRoss- Voronezh	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	466	386
ZAO CenterTelecom Service of the Moscow region	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	0	5,398
VladPage LLC	JSC CenterTelecom	Telecom services	Contractual	5	89

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

	owns over 20% of voting shares				
TelecomSroy LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	1,297	1,049
Vladimirski Payphone LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	2,661	3,394
MobilCom LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	879	776
TverTelecom LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	5,024	5,038
Telecom-Terminal LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	222	367
Teleport-Ivanovo LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	379	135
OAo National Payphone Network	Belongs to the same group as the Company	Telecom services	Contractual	2,116	99
Trunksvyaz LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	8	18
Manufacturing and implementation enterprise Svyaz- Service-Irga	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	45	27

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

JSC Russian Telecommunications Network	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	9,249	5,665
JSC Telecommunications company Rinfotels	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	4,296	3,129
OAO AEROCOM	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	10,061	2,017
<b>TOTAL:</b>				<b>1,254,194</b>	<b>566,601</b>

***Purchases from affiliated organizations***

*In the reporting year the following affiliated persons rendered services, sold products to the Company:*

<b>Affiliated organization</b>	<b>Relation</b>	<b>Type of purchases</b>	<b>Pricing determination</b>	<b>2003</b>	<b>2002</b>
OAO Investitsionnaya Kompania Svyazi	Owns over 20% of voting shares of JSC CenterTelecom	Payments of interest on granted loans	Contractual	7,731	24,909
OJSC Rostelecom	A subsidiary of JSC Svyazinvest	Traffic carrying services	Accounting rates and tariffs are regulated by the Ministry for Antimonopoly Policies of the RF	3,128,087	2,147,095
ZAO Mobile Telecommunications	A subsidiary of JSC Svyazinvest	Telecom services	Contractual	281	91
ZAO Scientific and Technical Center COMSET	Belongs to the same group as the Company	Supply of equipment	Contractual	26,010	0
ZAO Registrator-Svyaz	Belongs to the same group as the Company	Agency fees	Contractual	2,595	4,150
ZAO RusLeasingSvyaz	A subsidiary of JSC Svyazinvest	Supply of equipment	Contractual	29,827	60,552
NPF Telecom-Soyuz	Belongs to the same group as the Company	Pension contributions	Contractual	96,318	128,303
NP Center for	Belongs to the	Membershi	Contractual	322,917	68,199

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

Telecommunications Development Studies	same group as the Company	p fees, agency services			
JSC LINK-Bank	Belongs to the same group as the Company	Lending organization services	Contractual	2,315	2,768
JSC ACB Svyaz-bank	Belongs to the same group as the Company	Lending organization services, agent services	Contractual	50,080	631
JSC VolgaTelecom	A subsidiary of JSC Svyazinvest	Telecom services	Contractual	14	50
JSC Giprosvyaz	A subsidiary of JSC Svyazinvest	Design	Contractual	67,031	14,402
JSC Kostromskaya City Telephone Network	A subsidiary of JSC Svyazinvest	Telecom services	Contractual	11,810	8,408
OAo MGTS	A subsidiary of JSC Svyazinvest	Telecom services	Contractual	5,544	4,593
JSC North-Western Telecom	Belongs to the same group as the Company	Telecom services	Contractual	36	181
JSC Uralsvyazinform	A subsidiary of JSC Svyazinvest	Telecom services	Contractual	27	0
JSC Central telegraph	A subsidiary of JSC Svyazinvest	Telecom services	Contractual	310	527
JSC RTComm.RU	Belongs to the same group as the Company	Telecom services	Contractual	70,081	45,396
Insurance company ZAO Medexpress	Belongs to the same group as the Company	Voluntary medical insurance	Contractual	24,674	0
ZAO CenterTelecom Service	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	562	0
ZAO Belgorodskaya Cellular Communications	JSC CenterTelecom owns over 20% of voting	Telecom services	Contractual	3	7

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

	shares				
ZAO Telecom of the Ryazan region	JSC CenterTelecom owns over 20% of voting shares	Lease of equipment, carrying traffic	Contractual	22,848	25,572
ZAO TeleRoss-Voronezh	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	178	30
ZAO CenterTelecom Service of the Moscow region	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	16,196	9,412
Vlad Page LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	166	128
Telecom-Stroy LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	15,176	11,847
Vladimirski Payphone LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	127	50
MobilCom LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	489	437
Telecom-Terminal LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	23	23
Teleport-Ivanovo LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	353	313
JSC National Payphone Network	Belongs to the same group as the Company	Supply of equipment	Contractual	17,830	4,542

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

Manufacturing and implementation enterprise Svyaz-Service-Irga LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	Contractual	8,024	738
JSC Russian Telecommunications Network	JSC CenterTelecom owns over 20% of voting shares	Rosnet network services	Contractual	6,183	5,758
JSC Telecommunications company Rinfotels	JSC CenterTelecom owns over 20% of voting shares	Rinfotels network services	Contractual	283	1,087
ZAO SK KOSTARS	JSC CenterTelecom owns over 20% of voting shares	Voluntary medical insurance	Contractual	2,816	703
<b>TOTAL:</b>				<b>3,936,945</b>	<b>2,570,902</b>

***Settlements with affiliated persons***

*Summary of debts as on December 31, 2004 owed by affiliated persons to the Company and owed by the Company to affiliated persons:*

<b>Organization</b>	<b>Type of relations</b>	<b>Type of debt</b>	<b>2004</b>	<b>2003</b>
<b>Accounts receivable</b>				
OJSC Rostelecom	A subsidiary of JSC Svyazinvest	For traffic carrying services	912	1,796
Mobilcom LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	13,602	8,716
VladPage LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	47	131
Vladimirski Payphone LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	2,118	3,031
ZAO Vladimir Teleservice	JSC CenterTelecom owns over 20% of voting shares	For telecom services	75	54
TelecomStroy LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	3,874	4,305



**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

Teleport-Ivanovo LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	79	63
Telecom-Terminal LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	29	37
JSC VolgaTelecom	A subsidiary of JSC Svyazinvest	For telecom services	350	361
ZAO Belgorodskaya Cellular Communications	JSC CenterTelecom owns over 20% of voting shares	For telecom services	2,058	109
ZAO CenterTelecom Service	JSC CenterTelecom owns over 20% of voting shares	For telecom services	1,241	12
JSC National Payphone Network	Belongs to the same group as the Company	Supply of equipment	2,211	1,914
JSC Russian Telecommunications Network	JSC CenterTelecom owns over 20% of voting shares	For telecom services	1,426	267
JSC RTComm.RU	Belongs to the same group as the Company	For telecom services	742	254
ZAO Scientific and Technical Center COMSET	Belongs to the same group as the Company	Supply of equipment	7,936	0
JSC ACB Svyaz- Bank	Belongs to the same group as the Company	For telecom services, agency services	58,207	146
JSC Kostromskaya City Telephone Network	A subsidiary of JSC Svyazinvest	For telecom services	79	116
JSC Giprosvyaz	A subsidiary of JSC Svyazinvest	Design and development	21,042	22,187
JSC MGTS	A subsidiary of JSC Svyazinvest	For telecom services	239	194
JSC Central Telegraph	A subsidiary of JSC Svyazinvest	For telecom services	5,719	2,056
ZAO Registrator- Svyaz	A subsidiary of JSC Svyazinvest	Agency services	7	21
JSC AEROCOM	JSC CenterTelecom owns over 20% of voting shares	For telecom services	832	608
ZAO Telecom of the	JSC	For telecom services	100	0

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

Ryazan region	CenterTelecom owns over 20% of voting shares			
JSC Telecommunications company Rinfotels	JSC CenterTelecom owns over 20% of voting shares	For telecom services	437	331
Manufacturing and implementation enterprise Svyaz-Service-Irga LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	154	59
ZAO Smolenskaya Cellular Communications	JSC CenterTelecom owns over 20% of voting shares	For telecom services	786	896
TverTelecom LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	4,290	2,978
JSC North-Western Telecom	A subsidiary of JSC Svyazinvest	For telecom services	2	22
NP Center for Telecommunications Development Studies	Belongs to the same group as the Company	Membership fees, agency services	52,608	6,000
ZAO RusLeasingSvyaz	A subsidiary of JSC Svyazinvest	Supply of equipment	0	484
ZAO CenterTelecom Service of the Moscow region	JSC CenterTelecom owns over 20% of voting shares	Telecom services	0	5,253
Trunksvyaz LLC	JSC CenterTelecom owns over 20% of voting shares	Telecom services	0	6
<b>TOTAL</b>			<b>181,202</b>	<b>62,407</b>
<b>Accounts payable</b>				
OAO Investitsionnaya Kompania Svyazi	Owens over 20% of voting shares of JSC CenterTelecom	Expenses to pay interest on granted loans	29 622	30 362
OJSC Rostelecom	A subsidiary of JSC Svyazinvest	Traffic carrying services	191 718	218 988
Vladimirski Payphone LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	156	35
JSC National Payphone Network	Belongs to the same group as the Company	For telecom services	1 399	656
JSC RTComm.RU	Belongs to the	For telecom	2 241	1 259

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

	same group as the Company	services		
Telecom-Stroy LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	1 184	601
Teleport-Ivanovo LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	123	6
ZAO RusLeasingSvyaz	A subsidiary of JSC Svyazinvest	For supply of equipment	12 293	18 680
ZAO Scientific and Technical Center COMSET	Belongs to the same group as the Company	For supply of equipment	14 403	0
JSC Russian Telecommunications Network	JSC CenterTelecom owns over 20% of voting shares	For telecom services	570	625
JSC ACB Svyaz-Bank	Belongs to the same group as the Company	Lending organization services	11	3
ZAO Registrator-Svyaz	Belongs to the same group as the Company	Agency services	330	673
JSC Kostromskaya City Telephone Network	A subsidiary of JSC Svyazinvest	For telecom services	910	16 724
JSC Giprosvyaz	A subsidiary of JSC Svyazinvest	Design and engineering	14 585	767
JSC MGTS	An affiliate of JSC Svyazinvest	For telecom services	258	290
JSC Central Telegraph	An affiliate of JSC Svyazinvest	For telecom services	33	0
ZAO CenterTelecomService	JSC CenterTelecom owns over 20% of voting shares	For telecom services	663	201
ZAO CenterTelecomService of the Moscow region	JSC CenterTelecom owns over 20% of voting shares	For telecom services	1 614	6 648
JSC LINK-Bank	Belongs to the same group as the Company	Lending organization services	193	0
ZAO telecom of the Ryazan region	JSC CenterTelecom owns over 20% of voting shares	For telecom services	873	1 332

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

Manufacturing and implementation enterprise Svyaz-Service-Irga LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	2 714	0
NPF Telecom-Soyuz	Belongs to the same group as the Company	Pension contributions	33 460	0
ZAO Vladimir-Teleservice	JSC CenterTelecom owns over 20% of voting shares	For telecom services	1	14
TverTelecom LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	68	83
ZAO Smolenskaya Cellular Communications	JSC CenterTelecom owns over 20% of voting shares	For telecom services	0	58
ZAO Mobile Telecommunications	A subsidiary of JSC Svyazinvest	For telecom services	1	2
JSC North-Western Telecom	A subsidiary of JSC Svyazinvest	For telecom services	2	6
JSC Uralsvyazinform	A subsidiary of JSC Svyazinvest	Telecom services	1	0
JSC VolgaTelecom	A subsidiary of JSC Svyazinvest	Telecom services	0	2
Mobilcom LLC	JSC CenterTelecom owns over 20% of voting shares	For telecom services	5	0
<b>TOTAL:</b>	-	-	<b>309 431</b>	<b>298 015</b>

**Loans granted to the Company by affiliated persons:**

**ZAO RTC-Invest**

In 2004 the Company issued through ZAO RTC-Invest bills of exchange 1,175,000 thousand rubles worth (270,000 thousand rubles in 2003).

*The discount of the issued bills totaled in 2004 some 148,804 thousand rubles (35,487 thousand ruble in 2003).*

**ОАО Инвестиционная Компания Связи (JSC Svyazinvest)**

<b>Description</b>	<b>2004</b>	<b>2003</b>
Outstanding debt as on January 1 of the reporting year	30,361	56,323
Loans granted to the Company	7,731	18,741
Repaid in the reporting year	(8,470)	(44,703)

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

Outstanding debt as on December 31 of the reporting year	29,622	30,361
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*Loans were granted to the Company by OAO Investitsionnaya Kompania Svyazi on the following terms:*

- *under agreement #559 of 24.02.1998 interest was accrued at the effective refinancing rate of the Central Bank of Russia;*
- *under agreement #2717 of 17.07.2001 – no interest;*
- *under agreement #637 of 04.03.1998 – no interest;*
- *under agreement 31717 of 14.05.2002 – at 16% p.a. The interest amount accrued under the loan agreement in 2004 totaled 1,280 thousand rubles (1,473 thousand rubles in 2003).*
- *under agreement #2482 of 20.06.2002 – at 16 % p.a. The interest amount accrued under the loan agreement in 2004 totaled 1,280 thousand rubles(1,290 thousand rubles in 2003);*
- *under agreement #3063 of 30.07.2002 – at 16% p.a. The interest amount accrued under the loan agreement in 2004 totaled 1,280 thousand rubles (1,473 thousand rubles in 2003);*
- *under agreement #3927 of 09.10.2002 – at 16% p.a. The interest amount accrued under the loan agreement in 2004 totaled 800 thousand rubles(969 thousand rubles in 2003).*

**Loans granted by the Company to affiliated persons**

JSC Russian Telecommunications Network

Description	2004	2003
Outstanding debt as on January 1 of the reporting year	0	
Loans granted to the Company	615,444	
Repaid in the reporting year	(615,444)	
Outstanding debt as on December 31 of the reporting year	0	

*Loans are granted at interest. The interest amount accrued on the granted loans by the Company was 14,944 thousand rubles in 2004.*

ZAO CenterTelecomService

Description	2004	2003
Outstanding debt as on January 1 of the reporting year	0	
Loans granted to the Company	463,129	
Repaid in the reporting year	(463,129)	
Outstanding debt as on December 31 of the reporting year	0	

*Loans are granted at interest. The interest amount accrued on the granted loans by the Company was 12,629 thousand rubles in 2004.*

**Remuneration to directors**

*In 2004 the Company paid to members of the Board of Directors, the Management Board and Audit Commission salaries, bonuses and remuneration totaling 57,124 thousand rubles (41,020 thousand rubles in 2003). The list of members of the Board of Directors, the Management Board and Audit Commission can be found in the General Section of these notes.*

**9. Government aid**

(thousand rubles)

Type of government aid	Amount
Funds to finance capital expenditure connected with purchases,	

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

construction and acquisitions of non-current assets.	5,478
<b>TOTAL</b>	<b>5,478</b>

## **10. The Company net assets**

The Company net assets exceed its Charter capital in accordance with requirements of Article 35 Par. 4 of Federal Law #208-FZ of 26.12.1995 On joint-stock companies.

## **11. Non-government pension insurance**

On 23.12.2004 the Company executed non-government pension provision contracts #10/04-BIO/5036/04-DO and #9/04-VU/5170/04-DO with NPF Telecom-Soyuz. The Company debt with respect to pension contributions as on December 31, 2004 under agreement #9/04-BIO/5170/04-DO was 33,000 thousand rubles, and 460 thousand rubles under agreement #37r/99.

*Total amount of contributions paid by the Company in 2004 toward non-government pension insurance was 62,858 thousand rubles(132,244 thousand rubles in 2003).*

*For 2005 the contribution amount is set under agreement #10/04-VU/5036/04-DO at 283,000 thousand rubles and under agreement #37r/99 at 920 thousand rubles.*

## **12. Conditional liabilities**

*The Company became a surety for third parties to the total amount of 3,429,572 thousand rubles (1,550,466 thousand rubles in 2003). The Company Directorate does not expect any significant occurrences to happen to the surety obligations.*

*In 2004 **legal entities** filed against JSC CenterTelecom **66** lawsuits claiming **11,340** thousand rubles, including:*

*- 2 lawsuits requesting 454 thousand rubles in disputes of damages according to service provision contracts;*

*17 lawsuits from pre-contract disputes;*

*- 2 lawsuits to the total amount of 8 thousand rubles related to legal relationship with tax, antimonopoly and other authorities;*

*- 10 lawsuits requesting 136 thousand rubles related to business contracts;*

*- 12 lawsuits claiming 1,904 thousand rubles arising from disputes with telecommunications operators;*

*- 9 lawsuits claiming 2,236 thousand rubles related to disputes arising from privatization or ownership right claims;*

*- 14 lawsuits totaling 6,602 thousand rubles connected with other types of disputes.*

*In 2004 courts granted 11 lawsuits claiming 198 thousand rubles, court proceedings on 2 lawsuits claiming 12 thousand rubles were cancelled as JSC CenterTelecom agreed to pay the debt before the court decision was handed down. Court proceedings on 45 lawsuits claiming 16,787 thousand rubles were cancelled on other grounds. As on December 31, 2004 38 lawsuits claiming 6,385 thousand rubles filed by legal entities against JSC CenterTelecom are in the course of a trial.*

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

**Natural persons** filed in 2004 **669** lawsuits against JSC CenterTelecom claiming **31,141** thousand rubles in damages including 152 lawsuits claiming 28,352 thousand rubles as moral damages, including:

- 68 lawsuits claiming non-provision, poor quality or untimely provision of telecommunications services requesting damages totaling 26,753 thousand rubles, including 25,831 thousand rubles to compensate for moral damages;
- 408 lawsuits requesting 946 thousand rubles related to unlawful application of effective rates (including those related to customers eligible for benefits), including 27 lawsuits requesting compensation for moral damages amounting to 585 thousand rubles;
- other disputes arising from application of Rules of telecommunications service provision (including pre-contract disputes): altogether 89 lawsuits were filed claiming damages totaling 662 thousand rubles, including 34 lawsuits requesting compensation for moral damages to the amount of 511 thousand rubles;
- 16 complaints lodged claiming unlawful actions of various officers requesting 59 thousand rubles in claims, including 4 complaints requesting payment of compensation for moral damages totaling 47 thousand rubles;
- a lawsuit was filed by a shareholder of JSC CenterTelecom claiming 2 thousand rubles;
- 87 lawsuits were filed claiming damages totaling 2,719 thousand rubles arising from other types of disputes, including 54 lawsuits requesting compensations of moral damages totaling 1,378 thousand rubles.

In 2004 various court decisions granted 359 lawsuits filed against JSC CenterTelecom by natural persons to the total amount of 1,298 thousand rubles (including 18 lawsuits to compensate 242 thousand rubles in moral damages), court proceedings on 8 lawsuits totaling 8 thousand rubles were cancelled due to voluntary payments of debts (damages) by JSC CenterTelecom before court rulings were handed down, court proceedings on 316 filed lawsuits claiming 35,451 thousand rubles were stopped on other grounds (including 118 lawsuits requesting compensations for moral damages of 33,523 thousand rubles). As on December 31, 2004 legal actions are ongoing for 175 lawsuits filed against JSC CenterTelecom by natural persons claiming 2,524 thousand rubles in damages, including 87 lawsuits requesting compensations of 1,180 thousand rubles for moral damages.

Additionally, it should be pointed out that a legal counsel engaged by JSC CenterTelecom took part in 4 court trials appealing decisions and actions of tax authorities:

Moscow subsidiary:

During the period from 08.07.02 through 03.10.02 based on a decision of the deputy head of Division of the Ministry of Taxes and Duties of the Russian Federation for the Moscow region #5 dated 04.07.02 a field check of the Applicant was performed regarding accuracy of calculation, completeness and timely manner of payment of property taxes for 2001 and VAT for the period from 01.07.2000 through 31.05.02.

On December 02, 2002 Report #21 of the field tax check was compiled.

Tax claims were lodged against the Company totaling 17,195,410 rubles:

- unpaid VAT: 15,303,550;
- delayed payment charges: 735,930 rubles;
- fines: 1,155,930 rubles.

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

*In the course of out-of-court settlements the tax authority's claims were downsized to 3,699,795 rubles (unpaid VAT).*

*On April 23, 2003 the deputy head of the same tax authority made a decision to sue JSC CenterTelecom for tax delinquency as provided for in Article 122 Par. 1 of the Tax Code of the RF. The decision (Par. 4.2.1) suggests recovery from JSC CenterTelecom of the unpaid VAT totaling 3,699.79 thousand rubles.*

*June 16, 2003 JSC CenterTelecom received request #17 of May 23, 2003 to pay tax of 3,699,795 rubles.*

*The Company appealed the tax authority decisions. The necessary appeal was submitted to the Arbitration Court in Moscow.*

*Moscow arbitration court of the first instance by its ruling of January 27, 2004 rejected the appeal of JSC CenterTelecom requesting to invalidate decision #06-18 of May 23, 2003 of the deputy head of Division of the Ministry of Taxes and Duties of the Russian Federation for the Moscow region to take JSC CenterTelecom to account for tax delinquency and the request #17 of May 23, 2004 to pay the tax (VAT of 3,699, 795 rubles on contributions of natural persons to construction of telecommunications facilities).*

*The Federal Antimonopoly Service (FAS) of the Moscow district issued a resolution of July 27, 2004 dismissing the decision and ruling of Moscow Arbitration Court ruling. The case was assigned for a retrial by Moscow Arbitration Court.*

*Moscow arbitration court of the first instance by its ruling of November 2, 2004 for the second time rejected the appeal of JSC CenterTelecom requesting to invalidate decision #06-18 of May 23, 2003 of the deputy head of Division of the Ministry of Taxes and Duties of the Russian Federation for the Moscow region to take JSC CenterTelecom to account for tax delinquency and the request #17 of May 23, 2004 to pay the tax (VAT of 3,699, 795 rubles on contributions of natural persons to construction of telecommunications facilities).*

*The Federal Antimonopoly Service (FAS) of the Moscow district issued a resolution of February 7, 2004 confirming the decision of Moscow Arbitration Court, and an appeal filed by JSC CenterTelecom was dismissed.*

*Currently, a legal counsel engaged by JSC CenterTelecom is preparing an appeal to be filed with the Supreme Arbitration of the Russian Federation for and on behalf of JSC CenterTelecom.*

*Smolenski subsidiary:*

*A ruling of the Smolensk region Arbitration Court of February 17, 2004 ("the second circuit") granted the request of JSC CenterTelecom to invalidate (in the relevant part) the decision of the deputy head of Inter-regional Inspectorate #9 of the Ministry for Taxes and Duties of the Russian Federation for the Smolensk region of March 31, 2003 #53 (to pay the Unified Social Tax (UST) and fees for compulsory insurance of 1,076,613 rubles and late payment charges of 108,368).*

*A ruling of the Federal Arbitration Court of the Central District of May 13, 2004 the second circuit court ruling was dismissed and the case was sent for a retrial at the Smolensk region Arbitration Court.*

*A ruling of the Smolensk region Arbitration Court of July 27, 2004 ("the third circuit") granted the request of JSC CenterTelecom to invalidate (in the relevant part) the decision of the deputy head of Inter-regional Inspectorate #9 of the Ministry for Taxes and Duties of the Russian Federation for the Smolensk region of March 31, 2003 #53 (to pay the Unified Social Tax (UST) and fees for compulsory insurance of 1,076,613 rubles and late payment charges of 108,368).*

*The tax authority did not appeal the ruling in the Court of Appeal and Cassation Court.*



**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

*Verkhnevolzhski (Upper Volga) subsidiary of JSC CenterTelecom:*

*A ruling of the Yaroslavl region Arbitration Court of the first instance of March 3, 2004 granted the request of JSC CenterTelecom to invalidate the decision of the head of Inter-regional Inspectorate for major taxpayers of the Ministry for Taxes and Duties of the Russian Federation for the Yaroslavl region of June 25, 2003 #36 to take JSC CenterTelecom to account for tax delinquency (tax of 1,581,466 rubles, late payment charges of 72,114, a fine of 553,513 rubles).*

*A ruling of the court of appeal of the Yaroslavl region Arbitration Court of August 3, 2004 confirmed the decision, while the appeal filed by the said tax authority was dismissed.*

*A ruling of the Federal Antimonopoly Service of the Volgo-Vyatski District left unchanged the decision and ruling of the Yaroslavl region Arbitration Court, while the appeal of the said tax authority was dismissed.*

*Tulski subsidiary of JSC CenterTelecom:*

*A ruling of the Tula region Arbitration Court of the first instance of December 12, 2003 granted the request of JSC CenterTelecom to invalidate the decision of the head of Inter-regional Inspectorate for major taxpayers of the Ministry for Taxes and Duties of the Russian Federation for the Tula region of June 24, 2003 #238-k to take this subsidiary of JSC CenterTelecom to account for tax delinquency (profit tax of 602,954 rubles).*

*A ruling of the Federal Antimonopoly Service of the Central District left unchanged the ruling of the first instance court, while the appeal of the said tax authority was dismissed.*

*Meanwhile the following lawsuits can be regarded as significant ones:*

- lawsuits claiming amounts equal or exceeding 10% of the book-value of assets of JSC CenterTelecom, the figure as of September 30, 2004 being 4,104,006,800 rubles;*
- lawsuits hindering JSC CenterTelecom's business activities or aimed at prohibition of the same (lawsuits requesting wind up of the Company, demanding to recognize as insolvent (bankrupt) the Company and its daughter and associated companies, alienation of property (assets), disputing license rights, patents, demanding recovery of overdue debt with respect to taxes and duties payable to the budgetary and non-budgetary funds in significant amounts).*

*From the information provided above it follows that in 2004 JSC CenterTelecom was not a defendant in significant court proceedings outcome of which might affect the Company's financial and business operations.*

### **13. Events after the reporting date**

#### **Dividends**

*The amount of the annual dividend per share will be approved by the general meeting of shareholders on June 30, 2005. The Company Board of Directors passed a resolution recommending the meeting approving the dividend payments for 2004 as follows: 0.063008 rubles per ordinary share and 0.075611 rubles per preference share (0.124867 rubles and 0.28566 respectively in 2003), or the total dividend amount of 139,199 thousand rubles (347,297 thousand rubles in 2003). Subject to the approval by the general meeting of shareholders the payable dividends will be carried in the financial statements for 2005.*

#### **Purchase of shares of Private JSC (ZAO) CenterTelecomService of the Moscow region.**

*In accordance with the Board of Directors decision #18 of December 24, 2004 the Company in January-February 2005 purchased 49% of shares of ZAO CenterTelecomService of the Moscow region (49,000 ordinary shares) for 7,961.8 thousand rubles.*

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

*Entries in the shareholders register confirming the transfer of the ownership rights for these securities were in January and February 2005.*

***Loans and credit facilities***

*In January 2005 the Company entered into credit facility agreements with OAO Vneshtorgbank to the total amount of \$7,784,474. The credits will be disbursed in rubles at the exchange rate set by the Bank of Russia at the date of coming into force of the credit agreements. The maturity date is January 21, 2008. Interest payments will be made at 13% p.a.*

*In February 2005 the Company entered into an agreement with ZAO ACB Promsvyazbank for provision of a credit totaling 600,000 thousand rubles. The maturity date is February 12, 2010. For using the credit facility the Company will pay interest to the bank at 14.5% p.a. The telecommunications equipment worth 1,038,119 thousand rubles is provided as a security for the credit facility.*

*In February 2005 the Company entered into an agreement with the Saving Bank of the Russian Federation for provision of a credit totaling 1,020,980 thousand rubles. The maturity date is September 1, 2006. For using the credit facility the Company will pay interest to the bank at 12% p.a. The telecommunications equipment worth 592,954 thousand rubles is provided as a security for the credit facility.*

*In February-March 2005 the Company entered into agreements on issuing bills of exchanges with Brokerage - North-Western Investment Center totaling 983,000 thousand rubles. The repayment date is in 2006.*

***Unified Social Tax***

Federal Law #70-FZ of July 20, 2004 made amendments to Chapter 24 of the Tax Code of the Russian Federation providing for a reduction of the unified social tax rate as of January 1, 2005.

The reduction from 35.6% to 26% of the unified social tax rate will result in less tax payments with respect to the unified social tax, lesser ordinary activity expenses and in increased net profit of the Company.

*The Company management is not in a position to assess with a sufficient degree of certainty the effect of the unified social tax rate reduction as of January 1, 2005 on the 2005 net profit.*

***Charter capital***

In the course of increasing its charter capital the Company performed conversion of the following securities:

1. 1,578,006,833 (one billion five hundred and seventy eight million six thousand eight hundred and thirty three) registered book-entry ordinary shares with a nominal value of 0.3 rubles each (the total nominal value of the share issue is 473,402,049.9 rubles) into shares of the same type and categories with the nominal value of 3.0 rubles each (the total nominal value of the share issue is 4,734,020,499 rubles);
2. 525,992,822 (five hundred and twenty five million nine hundred and ninety two thousand eight hundred and twenty two) registered book-entry class A preference shares with a nominal value of 0.3 rubles (the total nominal value of the share issue is 157,797,846.6 rubles) into shares of the type and category with the nominal value of 3.0 rubles each (the total nominal value of the share issue is 1,577,978,466 rubles).

**Joint-Stock Central Telecommunication Company**  
**Explanatory Notes to Financial Statements for 2004**

(Russian Rubles in thousands, unless explicitly stated otherwise)

The Federal Service for Financial Markets on December 16, 2004 performed the state registration of the share issues and assigned the state registration numbers 1-04-00194-A and 2-04-00194-A respectively.

*Chief Executive*

\_\_\_\_\_ /                      /

*Chief Accountant*

\_\_\_\_\_ /R. Konstantinova/